Offering Memorandum **December 4, 2018**

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 our 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 your option;
- a fixed interest rate, which may be zero if Notes are issued at a discount from the principal amount due at maturity, or a floating interest rate, or both fixed and floating rate;
- floating interest rates may include:
  - EURIBOR
  - Federal Funds Rate
  - LIBOR
- 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" beginning on page 21 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 in "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 or any other governmental agency of the United States or (3) the government or any government agency of any other jurisdiction.

Application will be made to the United Kingdom's Financial Conduct Authority (the "**FCA**") in its capacity as competent authority (the "**UK Listing 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 UK Listing Authority (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 Regulated 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 Regulated Market. The London Stock Exchange's Regulated Market is a "regulated market", for the purposes of Directive 2014/65/EU, as amended ("**MiFID II**").

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 UK Listing Authority 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 Article 3 of Directive 2003/71/EC, as amended, or superseded (the "**Prospectus Directive**"), 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 European Union ("EU") and none has applied for registration under Regulation (EC) No. 1060/2009 (as amended by Regulation (EC) No. 513/2011) (the "CRA Regulation") but their credit ratings are endorsed on an ongoing basis by Standard & Poor's Credit Market Services Europe Limited, Moody's Investors Service Ltd and Fitch Ratings Limited, respectively, pursuant to and in accordance with the CRA Regulation. Standard & Poor's Credit Market Services Europe Limited, Moody's Investors Service Ltd and Fitch Ratings Limited are established in the EU and are registered under the CRA Regulation.

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 EU and registered under the CRA Regulation or issued by a credit rating agency established in a third country but whose credit ratings are endorsed by a credit rating agency established in the EU and registered under the CRA Regulation, unless the rating is provided by a credit rating agency operating in the EU before June 7, 2010 ("European Entity") which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused, or is provided by a third party country rating entity whose ratings are disclosed in that registration application as being ratings that will be endorsed by the European Entity. 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 Merrill Lynch

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 from time to time (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) **PRIIPs/ IMPORTANT** - **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 MiFID II; or (B) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded, 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 "**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 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 they consider 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).

EU Benchmark 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 amended (the "**Benchmark 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 Benchmark Regulation. Transitional provisions in the Benchmark 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 Benchmark 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 Notes issued or to be issued under the 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 comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and relevant implementing measures in the United Kingdom. This Offering Memorandum supersedes and replaces in its entirety the Offering Memorandum dated June 14, 2018, for the ANZ New Zealand and ANZNIL medium-term note program.

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 document and to the best of the knowledge and belief of each of the Issuers and the Guarantor (which have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

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)) 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, 2018 (the "**2018 Disclosure Statement**") and the financial year ended September 30, 2017 (the "**2017 Disclosure Statement**" and together with the 2018 Disclosure Statement, the "**Disclosure Statements**"), which contain the audited consolidated financial statements of the ANZ New Zealand Group as at and for the financial years ended September 30, 2018 (the "**2018 ANZ New Zealand Financial Statements**"), 2017 (the "**2017 ANZ New Zealand Financial Statements**") and 2016 (collectively, 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.

For segment reporting purposes in the Disclosure Statements, the ANZ New Zealand Group is split into three business segments: Retail, Commercial and Institutional. Segmental reporting has been revised to reflect changes to the ANZ New Zealand Group's structure. During the financial year ended September 30, 2016, segmental reporting was revised to reflect the integration of the Wealth segment into the Retail segment (the Wealth segment was previously reported separately). Financial information as at and for the financial years ended September 30, 2018 and 2017 reflects the current segment definitions.

The audited financial statements of ANZNIL as at and for the financial years ended September 30, 2018 and 2017 (the "**ANZNIL Financial Statements**") are attached to this Offering Memorandum as Annex A-1.

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 Section 87G of the FSMA, 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 UK Listing Authority, will constitute a supplementary prospectus as required by the UK Listing Authority and Section 87G of the FSMA.

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 "**we**", "**our**", "**us**" or "**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 our 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 terms of a Tranche; references to "**your Final Terms**" are to the Final Terms describing the specific terms of the Note(s) you purchase;
- 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 "**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 "**Noteholder**" are to a holder of Notes;
- 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 "**one-year core funding ratio**" are to all funding with residual maturity longer than one year plus 50% of tradable debt securities with original maturity of two years or more and with 6-12 months residual maturity plus non-market funding with residual maturity less than one year, discounted according to size bands, plus Tier 1 capital divided by total loans and advances;
- 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 "**2018**" are to our financial year ended September 30, 2018, and references to 2017 and other years have a comparable meaning, in each case, unless the context requires otherwise;

- 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 "**Wealth Australia**" are to ANZBGL's wealth division;

- 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. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as at the date hereof. Such statements constitute "forward-looking statements" for the purposes of the U.S. Private Securities Litigation Reform Act of 1995. 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.

For example, the forward-looking statements contained in this Offering Memorandum could be affected by:

- adverse conditions in global or regional credit and capital markets;
- business and economic conditions in New Zealand and the external markets with which New Zealand trades or other jurisdictions in which we or our customers operate, in particular, Australia, Asia, Europe and the United States, including, without limitation, changes that impact the real estate industries;
- demographic changes and changes in political, social, and economic conditions in New Zealand and any of the jurisdictions in which we, our customers or our counterparties operate;
- the stability of New Zealand, Australian, regional and global financial systems and disruptions to financial markets, the financial and credit uncertainty in Europe, China and the United States and any losses we or our customers may experience as a result;
- changes in consumer spending, saving and borrowing habits in New Zealand and external markets in which we, our customers or counterparties operate, in particular, Australia, Asia, Europe and the United States;
- the effects of competition in the geographic and business environments in which we, our customers or our counterparties operate;
- the competitive environment and impacts of changing consumer preferences for accessing and using the services provided by us;
- our ability to maintain or increase market share and control expenses;
- our timely development of new products and services and the acceptance and perceived overall value of these products and services by customers;
- the impact of current, pending and future legislation, regulation (including capital, leverage, liquidity and prudential requirements), regulatory disclosures and taxation laws and accounting standards in New Zealand, Australia and elsewhere;
- the impact on us of legal, regulatory, administrative and other current or future proceedings, including the risk of fines or sanctions, arising out of our alleged or actual failure to comply with applicable laws, regulations and administrative or other requirements;
- commercial and residential mortgage lending and real estate market conditions in New Zealand
- liquidity and funding risks;
- levels of credit risk and the adequacy of provisions to cover credit impairment;
- the failure to meet the capital adequacy and liquidity requirements to which we are subject;
- changes to our credit ratings;
- operational factors, including internal and external fraud, employment practices and workplace safety, and business disruption (including systems failures);
- environmental factors, including natural disasters such as earthquakes, floods, cyclones, volcanic eruptions, bush fires and tsunamis;

- an adverse change to our reputation;
- risks associated with the information technology systems we maintain;
- the reliability and security of our technology and our ability to protect our information from security risks, including potential cyber-attacks;
- our ability to complete, process and integrate or separate acquisitions and dispositions;
- market liquidity and investor confidence;
- inflation, interest rates, exchange rates, markets and monetary fluctuations and longer term changes;
- the impact of currency and commodity price fluctuations on New Zealand's agricultural exports and tourism sectors;
- losses associated with our counterparty exposures;
- the effectiveness of our risk management policies, including with respect to our internal processes, systems, organizational management and employees;
- inappropriate conduct of our staff;
- changes to our relationship with ANZBGL, including those changes required by law, regulation or administrative decree, including those described under "Regulation and Supervision";
- changes to the value of intangible assets;
- any changes to our accounting policies and their application;
- the impact of existing or potential litigation and regulatory actions applicable to us, our business or our customers;
- loss of key executives, employees or members of our board of directors;
- other risks and uncertainties detailed under "Regulation and Supervision", "Overview—Competition", "Risk Factors" and elsewhere herein; and
- various other factors beyond our control.

There can be no assurance that actual outcomes will not differ materially from the forward-looking statements contained in this Offering Memorandum.

Enforcement of Liabilities; Service of Process

ANZ New Zealand and ANZNIL are each registered under the Companies Act 1993 of New Zealand, 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.

Presentation of Financial Information

The ANZ New Zealand Financial Statements and the ANZNIL Financial Statements have been prepared in accordance with 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 2018, 2017 and 2016 are subject to auditing and auditor independence standards applicable in New Zealand, which differ from those applicable in the United States.

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. See "Exchange Rates".

Due to rounding, the numbers presented throughout this Offering Memorandum may not add up precisely, and percentages may not precisely reflect absolute figures.

Overview

This section provides an overview of ANZ New Zealand Group's businesses. It does not contain all of the information that you should consider before investing in the Notes. You 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

ANZ New Zealand was incorporated under the Companies Act 1955 of New Zealand on October 23, 1979, was re-registered under the Companies Act 1993 of New Zealand on June 13, 1997, and is a private company limited by shares. The registered office of ANZ New Zealand is located at ANZ Centre, Ground Floor, 23-29 Albert Street, Auckland 1010, New Zealand and its New Zealand company number is 35976. The address of ANZ New Zealand's principal executive offices is ANZ Centre, Ground Floor, 23-29 Albert Street, Auckland 1010, New Zealand and the phone number is +64 (9) 252 2974.

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.

ANZ New Zealand is the largest full-service banking group in New Zealand by total assets, according to the Financial Institutions Performance Survey June 2018 Quarterly Results report, released by KPMG. As at September 30, 2018, ANZ New Zealand Group had total assets of $159,012 million and held the largest market share measured by total assets compared to other registered banks in New Zealand, based on data series *"S10 Banks: Balance Sheet for registered banks"* published by the RBNZ.

As at September 30, 2018, ANZ New Zealand held approximately 30% and the New Zealand branch of ANZBGL held approximately 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. ANZ New Zealand is supported by 179 branches with a customer base of over 2 million.

Competitive strengths

We believe our competitive strengths are as follows:

- We are New Zealand's largest bank, with more customers than any other New Zealand bank.
- We have a leading market share in New Zealand in all major business segments, a diverse business mix reflecting the makeup of the economy.
- We have multiple well-respected brands and a combined customer base of over 2 million.
- We maintain strong local corporate governance and New Zealand-based management.
- We can benefit from the international connectivity of the ANZ Group.

Our Strategy

We aspire to be New Zealand's best bank by helping New Zealanders become more successful. To that end we have four strategic priorities:

- attract, develop and retain world class service and sales teams;

- modernize service through improved digital and data capabilities;
- simplify products and processes; and
- improve our connections between frontline channels to support customer interactions.

Recent Developments

OnePath Life (NZ) Limited ("OnePath Life NZ")

On November 30, 2018, ANZ Wealth New Zealand Limited sold OnePath Life NZ, a licensed life insurer and a wholly owned subsidiary of ANZ New Zealand, to a related party nominee of Cigna. The sale includes a 20-year strategic alliance for Cigna Corporation ("**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.

UDC Finance Limited ("UDC")

In October 2018, ANZ New Zealand announced that following the completion of a strategic review of the business it will not be undertaking an initial public offering of UDC, or progressing any sale discussions at this time.

Loan Calculator Remediation

ANZ New Zealand identified a problem in a loan calculator, which affected some ANZ New Zealand 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 being undercharged interest on affected loans. ANZ New Zealand fixed the calculator in May 2016. We began contacting customers affected by the error in June 2018. We will credit approximately $10 million to affected customers to put the affected loans back into the position they would have been in had the error not occurred. ANZ New Zealand self-reported this issue to the New Zealand Commerce Commission (the "**Commerce Commission**") in June 2017.

Proceedings Relating to ANZBGL's 2015 Institutional Equity Placement

In June 2018, the Commonwealth Director of Public Prosecutions ("**CDPP**") commenced criminal proceedings in Australia against ANZBGL and a senior employee alleging that they were knowingly concerned in cartel conduct by the joint lead managers of ANZBGL's August 2015 underwritten institutional equity placement of approximately 80.8 million ordinary shares. The matter is at an early stage. ANZBGL and its senior employee are defending the allegations.

In September 2018, the Australian Securities and Investments Commission ("**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 that ANZBGL should have advised the market that the joint lead managers took up approximately 25.5 million ordinary shares of the placement. The matter is at an early stage. 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 may also have an impact on us.

APRA Consultation on proposed revisions to APRA Prudential Standard APS 222 Associations with Related Entities ("APS 222")

In July 2018, APRA released a consultation paper and draft prudential standards on proposed revisions to APS 222, which also incorporated changes to its large exposures framework finalized and published in December 2017. APRA's proposals include revisions to the prudential limits on exposures to related entities. APRA is proposing to align the capital base used in limit calculations to Level 1 Tier 1 Capital (capital base used in the revised large exposures framework) and to reduce the individual and aggregate limits of exposures to related ADIs.

APRA is currently consulting on the proposed changes, taking into account submissions already received from ANZBGL and the industry. The impact on the ANZ Group (including ANZ New Zealand) arising from the above consultation will not be known until APRA finalizes its review. APRA intends to have the revised APS 222 framework implemented by January 1, 2020.

ANZ New Zealand organizational structure

Business lines and executive team

Our business is organized into the following three major business segments: (1) Retail (including the personal and Business Banking businesses and Wealth), (2) Commercial (including the CommAgri business and UDC) and (3) Institutional. These segments are 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.

On November 30, 2018, ANZ Wealth New Zealand Limited sold OnePath Life NZ, a licensed life insurer and a wholly owned subsidiary of ANZ New Zealand, to a related party nominee of Cigna. The sale includes 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.

Retail

Retail provides a full range of banking products 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 centers.

As at September 30, 2018, Retail had a network of 179 branches (a decrease of 14, compared to September 30, 2017, due to the restructuring of the branch network) and 593 ATMs, which included 8 mobile ATMs. Customers have access to phone and mobile phone banking and on-line banking services.

As at September 30, 2018, Retail had total loans of $76.8 billion and total deposits of $70.3 billion.

As at September 30, 2018, funds managed by the ANZ New Zealand Group totaled $30.7 billion.

Commercial

Commercial provides a full range of banking services including traditional relationship banking and sophisticated financial solutions (including asset financing) through dedicated managers focusing on privately-owned medium to large enterprises and the agriculture business segment.

As at September 30, 2018, Commercial had total loans of $42.4 billion and total deposits of $16.8 billion of which UDC accounted for $3.2 billion and $0.9 billion, respectively.

Institutional

The Institutional division services global institutional and business customers across three product sets: Transaction Banking, Loans & Specialized 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 & Specialized Finance provides loan products, loan syndication, specialized loan structuring and execution, project and export finance, debt structuring and acquisition finance, structured trade and asset finance, and corporate advisory.

- Markets provide risk management services on foreign exchange, interest rates, credit, commodities, debt capital markets and wealth solutions in addition to managing the ANZ New Zealand Group's interest rate exposure and liquidity position.

As at September 30, 2018, Institutional had total loans of $7.2 billion and total deposits of $17.0 billion.

Other

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

Executive Team

As of the date of this Offering Memorandum, our executive team is comprised of the following roles:

- Chief Executive Officer;
- Managing Director, Retail & Business Banking;
- Managing Director, Wealth;
- Managing Director, CommAgri;
- Managing Director, Institutional;
- Chief Operating Officer;
- Chief Financial Officer;
- Chief Risk Officer;
- General Manager, Talent & Culture;
- General Counsel & Company Secretary;
- Head of Corporate Affairs;
- Head of Marketing; and
- Head of Digital & Transformation.

Branding Strategy

The Retail, Commercial and Institutional segments all operate under the ANZ brand except in specialized markets.

In specialized markets, the ANZ New Zealand Group is further represented by the following brands:

- UDC (asset finance);
- ANZ Securities (online share and debt instrument trading);
- ANZ Investments (superannuation and investment products); and
- Bonus Bonds.

ANZ New Zealand has agreed to sell the ANZ Securities service, including the platform that allows customers to trade equities and bonds, to First NZ Capital Securities Limited ("**FNZC**"). The sale is part of a strategic alliance between ANZ New Zealand and FNZC. FNZC will be the provider of the equity and bond trading service to FNZC's and our customers following completion of the sale. ANZ New Zealand expects it to close in the first half of the 2019 financial year.

Competition

The New Zealand financial services sector in which we operate is very concentrated and highly competitive. Our 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 retail segments and Rabobank New Zealand Limited is active in retail deposits and agricultural lending markets. International banks such as Citigroup, HSBC and Deutsche Bank participate in a limited manner in the institutional market. Since late 2013, we have also seen Industrial and Commercial Bank of China, China Construction Bank and Bank of China obtain banking licenses to establish New Zealand subsidiaries. Their focus appears to be in wholesale banking, in particular, trade banking to and from China. In December 2017, China Construction Bank obtained a banking registration in New Zealand, followed by Bank of China in March 2018.

In recent months Chinese banks' focus has widened to include home lending where they have grown market share.

Competition in the financial services sector can be intense and difficult to predict. Competition in the deposit market has increased rapidly in New Zealand, with banks attempting to grow their share of retail deposits and reduce their wholesale funding. Lending to the residential mortgage market accounts for over half of the lending in New Zealand by registered banks and this market is a key area of competitive tension. In the last year, the home lending market has seen increased competition from new entrants, particularly Chinese banks aiming to grow their market share.

Outside the banking sector, a number of smaller finance companies in New Zealand are active in the personal and commercial property markets through competitive lending and deposit product offerings. The non-banking sector constituted approximately 3% of total financial system assets as of September 30, 2018.

New Zealand banks must restrict new non property-investment residential mortgage lending over 80% LVR to no more than 15% (increasing to 20% effective from January 1, 2019) of the dollar value of a bank's new non property-investment residential mortgage lending. New Zealand banks must also restrict property investment residential mortgage lending over 65% (increasing to 70% effective from January 1, 2019) LVR to no more than 5% of the dollar value of a bank's new property investment residential mortgage lending. The RBNZ has also set a specific asset class for loans to residential property investors. New Zealand banks must hold more capital for loans to residential property investors.

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 September 30, 2018, 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. In addition, as at September 30, 2018, ANZNIL accounts for more than 10% of ANZ New Zealand's consolidated total liabilities.

Employees

As at September 30, 2018, we employed 7,374 core full-time equivalent employees, consisting of 6,587 people employed on a full-time basis, 738 full-time equivalent employees employed on a part-time basis, and 49 people on fixed-term contracts. In addition, we had a further 31 full-time equivalent employees employed on a casual basis and 99 independent contractors and temporary staff.

				As of September 30,	
	2018	2017	2016	2015	2014
Number of core full-time equivalent employees[1]	**7,374**	7,565	7,655	7,838	7,900

(1) All employees are located in New Zealand except for one employee located in ANZNIL's London branch. Core 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, but does not include casual employees or independent contractors.

Our core full-time equivalent employees have decreased from 7,565 as at September 30, 2017 to 7,374 as at September 30, 2018.

ANZ New Zealand considers its relationship with its employees to be satisfactory. The majority of ANZ New Zealand employees are covered by individual employment agreements. ANZ New Zealand's collective employment agreement with FirstUnion, which affects approximately 1,000 employees, was renewed effective August 1, 2018, and will expire on July 31, 2020. Management is not involved in any significant disputes with labor unions.

Properties

We operate from a substantial number of properties, both freehold and leasehold, throughout New Zealand. As of the date of this Offering Memorandum, our freehold portfolio consisted of 29 properties including head office buildings, retail branches, land and two data-centers. Our most valuable freehold properties are Lady Ruby Drive Data Centre (Auckland), Aintree Ave Data Centre (Auckland) and 170 Featherston Street (Wellington).

As of the date of this Offering Memorandum, we lease approximately 551 properties including branches, offices, carparks and standalone ATM sites. We believe that all of our properties, both freehold and leasehold, are well maintained and adequately insured.

ANZ New Zealand (Int'l) Limited

ANZNIL was incorporated under the Companies Act 1955 of New Zealand on December 8, 1986, was re-registered under the Companies Act 1993 of New Zealand on May 27, 1996, and is a wholly owned subsidiary of ANZ New Zealand. The registered office of ANZNIL is at ANZ Centre, Ground Floor, 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, United Kingdom and the phone number is +44 (20) 3229 2017.

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 issue of Notes) are currently 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.

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. Citigroup Global Markets Inc. Deutsche Bank Securities Inc. Goldman Sachs & Co. LLC HSBC Securities (USA) Inc. Merrill Lynch, Pierce, Fenner & Smith Incorporated 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 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 relevant Final Terms. The ANZNIL Notes issued by ANZNIL will be unconditionally and irrevocably guaranteed by ANZ New Zealand as described in "Description of the Notes and the Guarantee".
Method of Distribution	The Notes are being offered from time to time by the Issuers through the Agents. The Issuers may also sell Notes to the Agents acting as principals for resale in the United States 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 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 relevant 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 relevant 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 in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive, 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 relevant Final Terms. Floating Rate Notes will bear interest based on an interest rate formula designated in the relevant Final Terms, which formula shall be one of: EURIBOR, the Federal Funds Rate and LIBOR. 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 relevant Final Terms, and at maturity, and interest on Floating Rate Notes will be payable quarterly on the dates set forth in the relevant Final Terms and at maturity.
Redemption and Repurchase	The relevant 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 relevant Final Terms. The relevant 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 relevant 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 United Kingdom, 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 AA- 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 UK Listing Authority and admitted to trading on the London Stock Exchange's Regulated Market.

Transfer Restrictions................................	There are selling restrictions in relation to the United States, Canada, Hong Kong, Japan, New Zealand, the People's Republic of China, the European Economic Area, the Republic of Korea, Singapore, Switzerland, Taiwan, the United Kingdom, and such other jurisdictions as may be required in connection with the offering and sale of a Tranche as set forth in the relevant 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.

Selected Consolidated Financial Information

The consolidated income statement data of the ANZ New Zealand Group for the financial years ended September 30, 2018, 2017, 2016, 2015 and 2014 and the consolidated balance sheet information of the ANZ New Zealand Group as at September 30, 2018, 2017, 2016, 2015 and 2014 have been derived from the ANZ New Zealand Group's audited consolidated financial statements for the financial years ended September 30, 2018, 2017, 2016, 2015 and 2014 (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 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Offering Memorandum.

The ANZ New Zealand Financial Statements and the financial information included herein are prepared in accordance with NZ IFRS. The ANZ New Zealand Financial Statements comply with IFRS. IFRS differs in certain significant respects from U.S. GAAP.

Summary consolidated income statement

						Financial year ended September 30,
NZ$ millions (unless otherwise stated)	**2018 US$ millions**[1]	**2018**	2017	2016	2015	2014
Interest income	**4,240**	**6,390**	6,198	6,423	6,926	6,272
Interest expense	**2,150**	**3,240**	3,161	3,421	4,051	3,529
Net interest income	**2,090**	**3,150**	3,037	3,002	2,875	2,743
Other operating income	**747**	**1,126**	938	852	1,175	1,085
Net operating income	**2,837**	**4,276**	3,975	3,854	4,050	3,828
Operating expenses	**1,007**	**1,517**	1,468	1,599	1,512	1,489
Profit before credit impairment and income tax	**1,831**	**2,759**	2,507	2,255	2,538	2,339
Credit impairment charge	**36**	**55**	62	150	74	(16)
Profit before income tax	**1,794**	**2,704**	2,445	2,105	2,464	2,355
Income tax expense	**498**	**751**	680	570	681	639
Profit after income tax	**1,296**	**1,953**	1,765	1,535	1,783	1,716

(1) For the convenience of the reader, the financial data for the financial year ended September 30, 2018 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate (as defined on page 47) for September 28, 2018 of NZ$1.00=US$0.6635.

Summary consolidated balance sheet

NZ$ millions (unless otherwise stated)	As at September 30, 2018 US$ millions[1]	2018	2017	2016	2015	2014
Assets						
Cash and cash equivalents	**1,460**	**2,200**	2,338	2,274	2,380	1,822
Settlement balances receivable	**435**	**656**	536	396	309	855
Collateral paid	**1,273**	**1,919**	1,415	2,310	1,929	783
Trading securities	**5,324**	**8,024**	7,663	11,979	12,139	11,750
Derivative financial instruments	**5,365**	**8,086**	9,878	21,110	17,658	11,404
Available-for-sale assets	**4,314**	**6,502**	6,360	2,859	1,428	772
Net loans and advances	**83,910**	**126,466**	117,627	114,623	106,357	96,299
Assets held for sale[2]	**595**	**897**	3,065	-	-	-
Life insurance contract assets	**-**	**-**	636	630	552	470
Investment in associates	**4**	**6**	7	7	4	88
Goodwill and other intangibles	**2,182**	**3,289**	3,275	3,424	3,492	3,454
Investments backing insurance contract liabilities	**-**	**-**	123	119	151	190
Premises and equipment	**216**	**325**	367	387	388	380
Other assets	**427**	**642**	683	701	740	648
Total assets	**105,505**	**159,012**	153,973	160,819	147,527	128,915
Liabilities						
Settlement balances payable	**1,434**	**2,161**	1,840	1,771	1,844	2,296
Collateral received	**561**	**845**	613	529	1,687	800
Deposits and other borrowings	**71,663**	**108,008**	101,657	99,066	90,678	84,019
Derivative financial instruments	**5,371**	**8,095**	9,826	21,956	17,230	10,205
Current tax liabilities	**107**	**161**	39	21	87	67
Deferred tax liabilities	**14**	**21**	187	145	124	60
Liabilities held for sale[2]	**222**	**334**	1,088	-	-	-
Payables and other liabilities	**628**	**947**	1,151	1,119	1,487	1,297
Employee entitlements and other provisions	**130**	**196**	185	206	191	204
Unsubordinated debt	**15,059**	**22,696**	21,323	20,014	19,403	17,042
Subordinated debt	**1,618**	**2,439**	3,283	3,282	2,343	1,144
Total liabilities	**96,807**	**145,903**	141,192	148,109	135,074	117,134
Net assets	**8,698**	**13,109**	12,781	12,710	12,453	11,781
Equity						
Share capital	**7,888**	**11,888**	8,888	8,888	8,888	8,213
Reserves	**22**	**33**	48	62	(10)	(7)
Retained earnings	**788**	**1,188**	3,845	3,760	3,575	3,575
Total equity	**8,698**	**13,109**	12,781	12,710	12,453	11,781

(1) For the convenience of the reader, the financial data for the financial year ended September 30, 2018 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 28, 2018 of NZ$1.00=US$0.6635.

(2) Assets and liabilities classified as held for sale include the assets and liabilities of OnePath Life NZ. These are presented separately on ANZ New Zealand's balance sheet.

Other financial data[1]

	2018 US$[13]	2018	2017	2016	2015	2014
						Financial year ended September 30,
Share information (NZ$ per fully paid share)[2]						
Dividend - declared rate	**0.75**	**1.12**	0.50	0.40	0.65	1.20
Earnings - basic	**0.27**	**0.41**	0.53	0.46	0.62	0.87
Net tangible assets - basic	**1.02**	**1.53**	2.80	2.78	2.68	3.12
Number of shares on issue (thousands)[2]						
Ordinary shares - fully paid	**6,345,105**	**6,345,105**	3,345,105	3,345,105	3,345,105	2,670,105
Preference shares[3]	**300,000**	**300,000**	300,000	300,000	300,000	300,000
Ratios[4]						
Return on average shareholders equity (%)[5]	**14.81**	**14.81**	13.58	12.10	14.85	14.45
Return on average total assets (%)[6]	**1.23**	**1.23**	1.12	0.98	1.29	1.38
Ratio of earnings to fixed charges[7]	**82.76**	**82.76**	76.70	61.06	60.43	66.24
Total capital ratio (%)	**14.4**	**14.4**	14.4	13.7	13.6	12.3
Other banking data:						
Capital adequacy ratios [8]						
Tier 1 (%)	**14.4**	**14.4**	14.1	13.2	12.7	11.1
Tier 2 (%)	**-**	**-**	0.3	0.5	0.9	1.2
Total (%)	**14.4**	**14.4**	14.4	13.7	13.6	12.3
Net interest margin (%)[9]	**2.20**	**2.20**	2.21	2.28	2.40	2.48
Cost to income ratio (%)[10]	**35.48**	**35.48**	36.93	41.49	37.33	38.90
Risk-weighted exposures (NZ$ millions)[8]	**54,505**	**82,147**	81,642	87,119	80,662	73,427
Return on average risk-weighted exposures ratio (%)[11]	**2.39**	**2.39**	2.07	1.83	2.31	2.38
Other information						
Points of representation (branches)	**179**	**179**	193	214	225	233
Number of core full-time equivalent employees[12]	**7,374**	**7,374**	7,565	7,655	7,838	7,900

(1) Source: ANZ New Zealand Financial Statements (except as otherwise noted in footnotes below).

(2) All shares of ANZ Bank New Zealand Limited are owned by ANZ Holdings (New Zealand) Limited, a wholly-owned subsidiary of ANZBGL.

(3) 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.

(4) Where applicable, ratios calculated using average balances have been referenced to the table "Average balance sheet and interest income/expense" on page 82 of this Offering Memorandum. Unless otherwise stated, the methodology for calculating average balances is included in that table.

(5) Profit after income tax divided by average shareholders equity.

(6) Profit after income tax divided by average total assets.

(7) For the purpose of computing this ratio, earnings consist of operating profit before income tax and outside equity interests. Fixed charges consist of interest costs plus one-third of minimum rental payments under operating leases (estimated by management to be the interest factor of such rentals). The ratio is expressed as earnings divided by fixed charges.

(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 approach.

(9) Net interest income divided by average interest earning assets.

(10) Operating expenses divided by operating income.

(11) Profit after income tax divided by average risk weighted exposures. Averages are based on quarterly balances. The ratio is annualized.

(12) All employees are located in New Zealand except for one employee located in ANZNIL's London branch. Core 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 but does not include casual employees or independent contractors.

(13) For the convenience of the reader, the financial data for the financial year ended September 30, 2018 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 28, 2018 of NZ$1.00=US$0.6635.

Risk Factors

Any investment in the Notes will involve risks including, without limitation, those described in this section. All material risks that have been identified by us are included in this section. You 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 your own financial and legal advisers about the risks associated with the Notes before deciding whether an investment in the Notes is suitable for you.

You should be aware that the risks set forth below are not the only ones facing us. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, may also become important factors that affect us.

If any of the specified or unspecified risks actually occur, our business, operations, financial condition or reputation could be materially and adversely affected. In this section, where we refer to the impact on our business, operations and financial condition and similar references, such references include the impact on our business prospects.

As at the date of this Offering Memorandum, we believe that the following risk factors may affect our ability to fulfill our obligations under the Notes 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. These factors are contingencies that may or may not occur and we are not in a position to express a view on the likelihood of any such contingencies occurring.

Risks relating to our business

Adverse credit and capital market conditions may significantly affect our ability to meet liquidity needs, adversely affect our access to international capital markets and increase our cost of funding.

We rely on deposits, credit and capital markets to fund our business and as a source of liquidity. Our liquidity and costs of obtaining funding are related to credit and capital market conditions.

Global credit and capital markets can experience periods of extreme volatility. For example, the global financial crisis that commenced in 2007 saw a sudden and prolonged dislocation in credit and equity capital markets, a contraction in global economic activity and the emergence of many challenges for financial services institutions worldwide. Sovereign risk and its potential impact on financial institutions in Europe and globally subsequently emerged as a significant risk to the recovery prospects of the global economy. More recently concern increased about global economic conditions due to slower economic growth in certain parts of the world. These conditions also adversely affect our ability to raise wholesale funding in the international capital markets from time to time.

The impact of the global financial crisis and its aftermath continue to affect regional and global economic activity, confidence and capital markets. Prudential authorities have implemented and continue to implement 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. We believe that the global financial crisis has also had a lasting effect on consumer and business behaviour in the advanced economies, including in the countries in which the ANZ Group operates. Monetary authorities responded to the global financial crisis by introducing zero or near-zero interest rates across most countries, and the major central banks took unconventional steps to support growth and raise inflation. While some economic factors have recently improved and some monetary authorities have begun to increase interest rates, lasting impacts from the global financial crisis and the potential for escalation in geopolitical risks suggest ongoing vulnerability and potential adjustment of consumer and business behaviour.

Monetary easing in major economies at various times intended to encourage economic growth has led to low interest rates which encouraged investment in riskier assets, leading to a reduction in credit spreads, reduced market volatility and rising prices for both financial and real assets. High and rising asset prices could become a point of market vulnerability if and when interest rates begin to return to more normal levels. Market conditions could worsen in a disorderly fashion, affecting the cost and availability of offshore funding for us.

Changes in global political conditions, such as the "Brexit" referendum in the United Kingdom on June 23, 2016 (and the related negotiations with the EU), the commencement of Donald Trump's presidency in January 2017, and global trade developments relating to, among other things, the imposition or threatened imposition of trade tariffs and levies by major countries have resulted in increased political and economic uncertainty and volatility in the global financial markets and may continue to do so. This is in part due to the unknown consequences for global trade, the broader global economy and financial markets.

Furthermore, since the commencement of Donald Trump's presidency, President Donald Trump has outlined a political and economic agenda for the United States that, in certain ways, significantly differs from previous U.S. trade, tax, fiscal, regulatory and other policies. In particular, President Donald Trump has pursued a protectionist trade policy which includes a series of expansive tariffs, up to and potentially including the entirety of goods traded between the United States and China, which may result in adverse effects on the economy of China, one of New Zealand's major trading partners and a significant driver of commodity demand and prices in the markets in which we and our customers operate. Anything that adversely affects China's economic growth could adversely affect New Zealand economic activity and, as a result, our business, operations and financial condition.

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 could adversely affect our business, operations and financial condition. These conditions may also adversely affect our ability to raise medium or long-term funding in the international capital markets.

In the event that our current sources of funding prove to be insufficient, we may be forced to seek alternative financing. The availability of such alternative financing will depend on a variety of factors, including prevailing market conditions, the availability of credit, our credit ratings and credit capacity. The cost of these alternatives may be more expensive or on unfavorable terms, which could materially and adversely affect our results of operations, liquidity, capital resources and financial condition.

If we are unable to source appropriate funding, we may be forced to reduce our lending or begin to sell liquid securities. There is no assurance that we can obtain favorable prices on some or all of the securities we offer for sale. Such actions could materially and adversely impact our business, results of operations, liquidity, capital resources and financial condition.

Geopolitical instability, such as threats of, potential for, or actual conflict, occurring around the world, such as the ongoing unrest and conflicts in Ukraine, North Korea, Syria, Egypt, Afghanistan, Iraq, Nicaragua and elsewhere, as well as the current high threat of terrorist activities, may also adversely affect global financial markets and general business and economic conditions, which in turn may adversely affect our business, operations, and financial condition.

Changes in political, general business and economic conditions, including disruption in New Zealand or global credit and capital markets, may adversely impact our business, operations and financial condition.

Our financial performance is primarily influenced by the political and economic conditions and the level of business activity in the countries and regions in which we operate or trade. Adverse changes in political, general business and economic conditions may adversely impact our business, operations and financial condition.

As we conduct substantially all of our lending business in New Zealand, our performance is greatly influenced by economic conditions in New Zealand, including the level and cyclical nature of business activity, which in turn is affected by both domestic and international economic and political events. Annual economic growth in New Zealand has been positive since 2010, although economic conditions continue to fluctuate. A material downturn in the New Zealand economy could materially and adversely impact our results of operations, liquidity, capital resources and financial condition.

Economic and political conditions and events in New Zealand which could adversely affect our performance and results include, but are not limited to:

- the implementation of new policies by the coalition government in New Zealand, such as proposed policies relating to the examination of agricultural debt mediation, the review and reform of the Reserve Bank Act and changes to New Zealand's foreign investment legislation;

- commodities volatility and results, such as reduced demand for New Zealand exports and lower export commodity prices;

- short-term and long-term interest rates, inflation and monetary supply;

- fluctuations in credit and equity capital markets;

- relative changes in foreign exchange rates, including the lagged impact of previous New Zealand dollar strength;

- adverse movements in housing or rural property prices; and

- the overall level of indebtedness in the economy, consumer confidence and the relative strength of the New Zealand economy.

Should difficult economic conditions in the markets in which we operate eventuate, 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, could impact our customers and the security that we hold against loans and other credit exposures, which may impact our ability to recover loans and other credit exposures. In addition, a significant decline in asset values in the Auckland housing market could challenge financial stability given the large exposure of the New Zealand banking sector to this market.

Our financial performance could also be adversely affected if we were 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 we operate.

Current economic conditions impacting us and our customers include changes in the real estate market in New Zealand (see "—Weakening of the real estate market in New Zealand may adversely affect our business, operations and financial condition"). For additional political conditions impacting us, see "—Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect our business, operations, financial condition and reputation".

New Zealand economic conditions may also be affected by geopolitical instability, including, among other factors, actual or potential conflict, terrorism and trade wars. Our future performance may also be affected by the economic conditions of other regions with economic connections to New Zealand (in particular, New Zealand's major trading partners such as Australia or China). 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.

In addition, 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. Further 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.

Natural and biological disasters such as, but not restricted to, cyclones, floods, droughts, earthquakes and pandemics, and the economic and financial market implications of such disasters domestically and globally, may negatively affect general business and economic conditions in the countries or regions in which we operate and in turn may adversely affect our business, operations and financial condition (see "—Impact of future climate change, geological events, plant, animal and human diseases, and other extrinsic events may adversely affect our business, operations and financial condition").

All or any of the negative political, business, environmental or economic conditions described above could cause a reduction in demand for our products and services and/or an increase in loan and other credit defaults and bad debts, which could adversely affect our business, operations, and financial condition.

Competition in the markets in which we operate may adversely affect our business, operations and financial condition.

The markets in which we operate are highly competitive, and could become even more so. Factors that contribute to competition risk include mergers and acquisitions, changes in customers' needs, preferences and behaviours, entry of new participants, development of new distribution and service methods and technologies, increased diversification of products by competitors and changes in regulation such as the rules governing the operations of banks and non-bank competitors. For example:

- changes in the financial services sector in New Zealand have made it possible for non-banks to offer products and services traditionally provided by banks, such as payments, home loans, and credit cards. Digital technologies and business models are changing customer behaviour and the competitive environment. Emerging competitors are increasingly utilising new technologies and seeking to disrupt existing business models in the financial services sector. Existing companies from outside of the traditional financial services sector may seek to directly compete with us by offering products and services traditionally provided by banks, including by obtaining banking licenses and/or by partnering with existing providers;

- banks organised in jurisdictions outside New Zealand are subject to different levels of regulation and some of these banks may have lower cost structures that may make them more competitive in the markets where we operate; and

- consumers and businesses may choose to transact using, or to invest in, new forms of currency (such as cryptocurrencies) in which we may choose not to engage.

Competition in the financial services sector can be intense and difficult to predict. Currently there is significant competition for customer deposits and residential secured mortgages among New Zealand banks. This is likely to continue as banks seek to diversify their sources of funding and drive asset growth. Competition could also potentially lead to a compression in net interest margins or increased advertising and related expenses to attract and retain customers.

We rely on deposits to fund a significant portion of our balance sheet. We compete with banks and other financial services firms for such deposits. Increased competition for deposits could increase our cost of funding. To the extent that we are not able to successfully compete for deposits, we 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 our business, operations or financial condition.

The impact on us of an increase in competitive market conditions or a technological change that puts our business platforms at a competitive disadvantage, especially in our main markets and products, would potentially lead to a material reduction in our market share, customers and margins, which would adversely affect our business, operations and financial condition.

Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect our business, operations, financial condition and reputation.

Our businesses and operations are highly regulated. We are therefore subject to a substantial number of laws, regulations and policies in New Zealand, Australia and other countries in which we operate, trade, raise funds or in respect of which we have some other connection (including the United Kingdom and the United States).

In New Zealand, the RBNZ, the Financial Markets Authority ("**FMA**") and the Commerce Commission have supervisory oversight over us. Prudential, regulatory and supervisory authorities such as the RBNZ have extensive administrative, practical and investigative powers over our business.

The regulation and supervision of financial services businesses is increasingly extensive and complex in New Zealand and the other jurisdictions where we conduct business and raise funds. This is particularly the case in the areas of consumer credit and consumer protection (including in the design and distribution of financial products), conduct, funding, liquidity, derivatives, capital adequacy, provisioning, competition, mortgage pricing, remuneration, privacy, data protection, data access, prudential regulation, anti-bribery and corruption, anti-money laundering and counter-terrorism financing, economic and trade sanctions, executive accountability and open banking.

Changes to laws, regulations and policies in New Zealand and the other jurisdictions where we conduct business and raise funds may materially and adversely affect our business, operations, financial condition and reputation. Such changes may impact our corporate structures, businesses, strategies, capital, liquidity, funding, competitive position, profitability, cost structures and the cost and access to credit for our customers and the wider economy. Examples of recent changes to laws, regulations and policies, or developments that may lead to future changes include, without limitation, those described below.

New Zealand Developments

The New Zealand Government and its agencies, including the RBNZ, the Commerce Commission and the FMA, have supervisory oversight over us. There have been a series of regulatory releases from these and other authorities that have proposed significant regulatory changes for financial institutions. These changes include, among other things:

- the RBNZ's revised outsourcing policy and the RBNZ's revised Conditions of Registration which apply on and after October 1, 2018;

- the RBNZ's review of capital requirements;

- the New Zealand Ministry of Business, Innovation and Employment ("**MBIE**") review of the Financial Advisers Act 2008;

- the amendment to the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (the "**NZ AML/CFT Act**"); and

- the New Zealand Government's review of the Reserve Bank Act.

See "Regulation and Supervision" for further discussion of these developments.

We continue to expect increased regulatory focus on capital and liquidity requirements. For example, the RBNZ, APRA, the Basel Committee on Banking Supervision and regulators in other jurisdictions have revised standards and released discussion papers, proposals and decisions in regards to strengthening the resilience of the banking and insurance sectors, including proposals and decisions to strengthen capital and liquidity requirements for the banking sector (widely known as "**Basel III**"). Such institutions continue to revise standards, and release discussion papers, proposals and decisions to strengthen capital and liquidity requirements for the banking sector.

The Credit Contracts and Consumer Finance Amendment Act 2014 ("**CCCFA 2014**") came fully into force in New Zealand in June 2015 and introduced responsible lending principles and strengthened consumer rights in lending transactions. The Minister of Commerce and Consumer Affairs has published a responsible lending code setting out guidance for lenders on compliance with the responsible lending principles in the CCCFA 2014. Although the code is not binding on lenders, in any proceeding relating to the Credit Contracts and Consumer Finance Act 2003, evidence of compliance with the code will be treated as evidence of compliance with the binding responsible lending principles in the CCCFA 2014. Now that the revised law and new code have been operational for an extended period of time, we consider that it is reasonable to anticipate an increase in surveillance and review work by the Commerce Commission across the industry. Additionally, following MBIE's review of consumer credit regulation during 2018, the New Zealand Government announced in October 2018, that it intends to make further amendments to the CCCFA 2014 to better protect vulnerable consumers from irresponsible lending.

ANZ New Zealand is a registered bank under the Reserve Bank Act and 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 "Regulation and Supervision—Conditions of Registration for ANZ Bank New Zealand Limited". The Conditions of Registration may be changed at any time, though the RBNZ is required to give ANZ New Zealand notice and consider submissions made by ANZ New Zealand prior to any such change.

In the event that the RBNZ were to conclude that we did not satisfy the Conditions of Registration, sanctions could be imposed on us. These could include increases in our required levels of capital or additional limitations on the conduct of our business. In addition, the RBNZ could require us to take additional steps and incur additional expense to satisfy the conditions.

ANZ New Zealand has received RBNZ accreditation as an advanced Internal Ratings Based Approach ("**IRB**") and Advanced Measurement Approach bank under the principles laid out by the Basel Committee on Banking Supervision in respect of Basel III. That accreditation is subject to conditions and these have been incorporated into the current Conditions of Registration. We are reviewed by both the RBNZ and APRA in terms of maintaining that accreditation.

The RBNZ Liquidity Policy ("**BS13**"), which took effect from March 30, 2010, sets out the RBNZ's policy on management of liquidity risk by registered banks. The objective of BS13 is to contribute to the effective functioning of the 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 of 75%, ensuring that at least a minimum proportion of bank funding is met through customer deposits, term wholesale funding and Tier 1 capital. The RBNZ has previously stated that it will be reviewing its liquidity policy in light of the Basel Committee on Banking Supervision's new liquidity requirements. Future changes to liquidity requirements in New Zealand could adversely affect our business, operations, financial condition and reputation and could result in us incurring substantial costs in order to comply with such changes.

There is currently an environment of heightened scrutiny on the financial services industry in New Zealand and Australia. For instance, following the Australian Royal Commission (as defined below), the FMA and the RBNZ conducted a joint review of conduct and culture in the New Zealand banking sector. In May 2018, the FMA and the RBNZ asked New Zealand banks to provide them with specific information to give assurance that the type of misconduct highlighted in the Australian Royal Commission was not taking place in New Zealand. Each New Zealand bank was asked to provide a summary of work, both completed and ongoing, to identify and address conduct and culture issues. The FMA and the RBNZ also conducted onsite interviews. On November 5, 2018, the FMA and the RBNZ released the findings of their industry review. The industry report, released in November 2018, found that conduct and culture issues do not appear to be widespread in New Zealand banks at this time. 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.

Each bank that took part in the review, including ANZ New Zealand, will receive or has received a tailored report detailing the FMA's and RBNZ's observations and recommendations. Each bank is required to provide a response to their specific reports and their plans to address the FMA's and RBNZ's feedback by March 31, 2019. ANZ New Zealand received its specific report on November 28, 2018.

As at the date of this Offering Memorandum, it is uncertain what impact any further developments in this area may have on the ANZ New Zealand Group. For further information on the Australian Royal Commission, see "—Australian Developments—Australian Royal Commission" below.

Australian Developments

- *Australian Royal Commission:* On November 30, 2017, the Australian Government publicly announced a Royal Commission into misconduct in the banking, superannuation and financial services industry (the "**Australian Royal Commission**"). The Australian Royal Commission's terms of reference dated December 14, 2017, require and authorize the Australian Royal Commission to, among other things, inquire into misconduct and conduct falling below community standards and expectations by financial services entities (including the ANZ Group). The Australian Royal Commission has been asked to submit its final report by February 1, 2019 (an interim report was released on September 28, 2018). The Australian Royal Commission is likely to 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 outcomes and total costs associated with these possible exposures remain uncertain. As a member of the ANZ Group, any impact on the ANZ Group that arises as a result of the Australian Royal Commission may also have an impact on ANZ New Zealand.

- *Financial support:* The ANZ Group is subject to extensive prudential regulation by APRA. See "Regulation and Supervision—Restrictions on ANZBGL's ability to provide financial support" for further discussion.

- *Bank levies:* The Australian Government imposed a levy on liabilities for certain large banks, including the ANZ Group, with effect from July 1, 2017 ("**Major Bank Levy**"). There is a risk that the Australian Government could increase the Major Bank Levy or that the Australian State and Territory Governments may introduce similar levies, which could adversely affect the ANZ Group's business operations and financial condition. As a member of the ANZ Group, changes to the performance of the ANZ Group or changes to the estimated impact of the Major Bank Levy may have an impact on us.

Other Offshore Developments

There have been a series of regulatory releases from authorities in various jurisdictions outside of New Zealand where we operate or raise funds that have proposed significant regulatory changes for financial institutions. These changes include, among other things:

- proposals for changes to financial regulations in the United States (including potential legislative changes to the Dodd-Frank Act and potential revision to its Volcker Rule);

- introduction of greater data protection regulations in Europe, including the General Data Protection Regulations which came into effect on May 25, 2018;

- the Markets in Financial Instruments Directive 2 in the European Economic Area;

- amendments to the United Kingdom's Criminal Finances Bill (which has extraterritorial reach); and

- implementation of phases 4 and 5 of the initial margin requirements for uncleared OTC derivatives in various jurisdictions.

In addition, United Kingdom and European authorities may also propose significant regulatory changes as a result of 'Brexit' that may impact the Group.

Any failure by us to comply with laws, regulations and policies in the jurisdictions in which we operate and obtain funds may adversely affect our business, operations, financial condition and reputation. This may include regulatory investigations, legal or regulatory sanctions, financial or reputational loss, litigation, fines, penalties, restrictions on our 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). Such failures also may result in us 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 our litigation and contingent liabilities, see "—Litigation and contingent liabilities may adversely affect our business, operations, financial condition and reputation".

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 our business, operations, financial condition and reputation.

Anti-money laundering, counter-terrorist financing and sanctions compliance have been the subject of significant regulatory change and enforcement in recent years. The increasingly complicated environment in which we operate has heightened these operational and compliance risks. Furthermore, the upward trend in compliance breaches by global banks and the related fines and settlement sums mean that these risks continue to be an area of focus for us. Following the Australian Transaction Reports and Analysis Centre's civil penalty proceedings in 2017 against a major Australian bank relating to alleged past and ongoing contraventions of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth), there may be increased regulatory scrutiny of other Australian banks, including the ANZ Group, and significant changes to the anti-money laundering regulatory framework. While the full scope of any changes, if any, is not known, we may incur additional costs associated with regulatory compliance that may adversely affect our business, operations, financial condition and reputation.

The risk of non-compliance with anti-money laundering, counter-terrorist financing and sanction laws remains high given the scale and complexity of our business. For example, emerging technologies, such as cryptocurrencies, could limit our ability to track the movement of funds. A failure to operate a robust programme to combat money laundering, bribery and terrorist financing or to ensure compliance with economic sanctions could have serious financial, legal and reputational consequences for us and our 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 our business, operations, financial condition and reputation. 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.

Weakening of the real estate market in New Zealand may adversely affect our business, operations and financial condition.

Residential and rural property lending, together with real estate development and investment property finance, constitute an important part of our business.

Declining asset prices could impact customers and counterparties and the value of the security (including residential and rural property) we hold against loans, which may impair our ability to recover amounts owing to us if our customers or counterparties were to default. In recent years, there has been strong house price growth, particularly in Auckland, with the RBNZ noting Auckland's house price-to-income ratio is among the highest in the world. The increases in house prices have been attributed to low interest rates, steady income growth, and an imbalance between demand and supply. In 2017, house price growth slowed, particularly in Auckland. This reflected a combination of tighter LVR restrictions since October 2016, a more general tightening in bank lending standards, an increase in mortgage interest rates in early 2017 and uncertainty related to the change in the New Zealand Government in September 2017. While house prices are no longer rising rapidly, and the RBNZ will ease LVR restrictions on new mortgages from January 1, 2019, house prices remain elevated relative to incomes and rents. Declining asset prices and a reversal of house price growth could adversely affect our business, operations and financial condition. Additionally, if New Zealand housing price growth subsides or property valuations decline, the demand for our home lending products may decrease, which may materially and adversely affect our business, operations and financial condition.

A significant decrease in New Zealand housing valuations triggered by, for example, an event or a series of events in the local or global economy or lack of confidence in market values, and in conjunction with higher cost of living, rising interest rates and/or rising unemployment, could adversely impact our home lending activities. 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, could cause us to incur higher credit losses, which could adversely affect our financial performance and condition. The demand for our home lending products may also decline due to buyer concerns about decreases in values or concerns about rising interest rates, which could make our lending products less attractive to potential homeowners and investors.

A material decline in residential housing prices could also cause losses in our residential development portfolio if customers who are pre-committed to purchase these dwellings are unable or unwilling to complete their contracts and we are forced to re-sell these dwellings at a loss.

A significant decrease in rural property valuations or a significant slowdown in other real estate markets where we do business could result in a decrease in the amount of new lending opportunities or lower recovery rates which may in turn materially and adversely affect our business, operations and financial condition.

Credit risks may adversely affect our business, operations and financial condition.

As a financial institution, we are 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 realising significant losses and in some cases failing altogether. We are also subject to the risk that our rights against third parties may not be enforceable in certain circumstances, which could result in credit losses. Should material credit losses occur to our credit exposures, this may adversely affect our business, operations and financial condition.

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

For example, customers and counterparties in the New Zealand dairy industry, which is particularly exposed to excess milk production from other developed countries being sold into traditional markets, could be materially and adversely impacted by a decline in commodity prices and, as a result, could fail to meet payment obligations. There is 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.

Credit risk may also arise from certain derivative, clearing and settlement contracts that we enter into, and from our 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.

The risk of credit-related losses may also be increased by a number of factors, including deterioration of the economic conditions in New Zealand, more expensive imports in New Zealand due to the reduced strength of the New Zealand dollar relative to other currencies, a deterioration of the financial condition of our counterparties, a reduction in the value of assets we hold as collateral, and a reduction in the market value of the counterparty instruments and obligations we hold.

In addition, in assessing whether to extend credit or enter into other transactions with customers and/or counterparties, we rely on information provided by or on behalf of customers and/or counterparties, including financial statements and other financial information. We may also rely on representations of customers and independent consultants as to the accuracy and completeness of that information. Our financial performance could be negatively impacted to the extent we rely on information that is inaccurate or materially misleading.

We hold provisions for credit impairment. The amount of these provisions is determined by assessing the extent of impairment inherent within our lending portfolio, based on current information. This process, which is critical to our financial condition and results, requires subjective and complex judgements, including forecasts of how current and future economic conditions might impair the ability of borrowers to repay their loans. However, if the information upon which the assessment is made proves to be inaccurate or if we fail to analyze the information correctly, the provisions made for credit impairment may be insufficient, which may adversely affect our business, operations and financial condition.

Challenges in managing our capital base could give rise to greater volatility in capital ratios, which may adversely affect our business, operations and financial condition.

Our capital base is critical to the management of our businesses and access to funding. Prudential regulators of the ANZ New Zealand Group include, the RBNZ and APRA. We are required by our primary 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 us to raise additional capital. There can be no certainty that any additional capital required would be available or could be raised on reasonable terms.

Our capital ratios may be affected by a number of factors, such as lower earnings, increased asset growth and changes in business strategy (including acquisitions, divestments and investments or an increase in capital intensive businesses).

Global and domestic regulators, including the Basel Committee have released proposals and decisions to strengthen, among other things, the liquidity and capital requirements of banks and funds management and insurance entities. These proposals and decisions, together with any risks arising from any regulatory changes, are described above in the risk factor entitled "Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect our business, operations, financial condition and reputation" and in the section entitled "Regulation and Supervision".

Our credit ratings could change and adversely affect our cost of funds, liquidity, competitive position and ability to raise capital and wholesale funding and constrain the volume of new lending which may adversely affect our business, operations, financial condition and reputation.

Our credit ratings have a significant impact on both our access to, and cost of, capital and wholesale funding. Credit ratings may be withdrawn, qualified, revised or suspended by credit rating agencies at any time. Rating outlooks may also be revised 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 or market developments or for any other reason.

The credit ratings or rating outlooks assigned to us and our subsidiaries could be revised at any time in response to a number of factors, including our 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 could be driven by the occurrence of one or more of the other risks identified in this Offering Memorandum or any other reason. In addition, a reduction in ANZBGL's credit ratings or in New Zealand's sovereign credit rating could adversely affect our credit ratings. New Zealand's sovereign credit rating could be negatively impacted by a variety of factors, including policy, legislation and regulatory changes implemented by New Zealand's government.

In addition, the ratings of individual securities (including, but not limited to, certain Tier 1 capital and Tier 2 capital securities and covered bonds) issued by us (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.

Any future downgrade or potential downgrade to our senior unsecured credit ratings or rating outlooks may reduce our access to capital and wholesale debt markets, which could lead to an increase in funding costs, constraining the volume of new lending and affect the willingness of counterparties to transact with us, which may adversely affect our business, operations, financial condition and reputation. Credit ratings are not a recommendation by the relevant rating agency to invest in securities we offer.

Operational risk events may adversely affect our business, operations and financial condition.

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.

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:

(a) internal fraud: fraud involving employees, contractors or any internal party to the ANZ New Zealand Group 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 us or others;

(b) 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;

(c) employment practices and workplace safety: employee relations, diversity and discrimination, and health and safety risks to our employees;

(d) loss of key staff or inadequate management of human resources including the Chief Executive Officer ("**CEO**") and the management team of the CEO;

(e) clients, products and business practices: risk of market manipulation or anti-competitive behaviour, failure to comply with disclosure obligations, product defects, incorrect advice, money laundering and misuse or unauthorized disclosure of customer information;

(f) business disruption (including systems failures): risk that our banking operating systems are disrupted or fail;

(g) damage to physical assets: risk that a natural disaster or terrorist or vandalism attack damages our buildings or property; and

(h) execution, delivery and process management: is associated with losses resulting from, among other things, process errors made by our employees caused by inadequate or poorly designed internal processes, or the poor execution of standard processes, vendor, supplier or outsource provider errors or failed mandatory reporting errors.

Loss from operational risk events may adversely affect our business, operations and financial condition. 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.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either of the Issuers or the Guarantor will be unable to comply with its obligations as a company with securities admitted to the Official List.

Reputational risk events as well as operational failures and regulatory compliance failures may give rise to reputational risk which may adversely affect our business, operations and financial condition.

Reputational risk may arise as a result of an external event or our own actions, which include operational and regulatory compliance failures, and adversely affect perceptions about us held by the public (including our customers), shareholders, investors, regulators or rating agencies. The impact of a risk event on our reputation may exceed any direct cost of the risk event itself and may adversely impact our business, operations and financial condition.

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

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

- failures in customer on-boarding where customer identification obligations are not fulfilled;
- new 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 behaviour;
- 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 our reputation may have wide-ranging impacts, including adverse effects on our profitability, capacity and cost of sourcing funding, increased regulatory scrutiny and availability of new business opportunities. Our ability to attract and retain customers could also be adversely affected if our reputation is damaged, which could adversely affect our business, operations and financial condition.

Contagion and reputational risk events may adversely affect our credit ratings, liquidity, business, operations, financial condition, reputation and ability to access the capital markets on favorable terms.

As we are part of a larger business group, we are vulnerable to financial and reputational damage by virtue of our association with other members of the ANZ Group, any of which may suffer the occurrence of a risk event. In our case, the damage may be financial and may materially impact our results if financial resources are withdrawn by ANZBGL to support us or another member of the ANZ Group. Reputational risk may arise as a result of a contagion event or as a result of our 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 our results and financial condition.

In June 2018, the CDPP commenced criminal proceedings in Australia against ANZBGL and a senior employee alleging that they were knowingly concerned in cartel conduct by the joint lead managers of ANZBGL's August 2015 underwritten institutional equity placement of approximately 80.8 million ordinary shares. The matter is at an early stage. ANZBGL and its senior employee are defending the allegations.

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 that ANZBGL should have advised the market that the joint lead managers took up approximately 25.5 million ordinary shares of the placement. The matter is at an early stage. 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 to the ANZ Group's credit ratings, may adversely affect our credit ratings, liquidity, business, operations, financial condition, reputation and ability to access the capital markets on favorable terms.

Conduct-related risk events or behaviours may adversely affect our business, operations, financial condition and reputation.

We define conduct-related risk as the risk of loss or damage arising from the failure of the ANZ New Zealand Group, our employees or our 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-related risks can result from:

- the provision of unsuitable or inappropriate advice (for example, advice that is not commensurate with a customer's needs and objectives or appetite for risk);
- 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;
- sales and/or promotion processes (including incentives and remuneration for staff engaged in promotion, sales and/or the provision of advice);
- the provision of credit, outside of the Group's policies and standards; and
- trading activities in financial markets, outside of our policies and standards.

We are regulated under various legislative regimes in the countries in which we operate that provide for customer protection in relation to advisory, marketing and sales practices. These may include, but are not limited to, appropriate management of conflicts of interest, appropriate accreditation standards for staff authorized to provide advice about financial products and services, disclosure standards, standards for ensuring adequate assessment of client/product suitability, quality assurance activities, adequate record keeping, and procedures for the management of complaints and disputes.

There has been an increasing regulatory and community focus on conduct-related risk globally. For additional information on regulatory actions that could affect us (including on the FMA and RBNZ findings of the recent industry review into conduct and culture risk), see "—Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect our business, operations, financial condition and reputation."

Conduct-related risk events may expose us to regulatory actions, restrictions or conditions on banking licenses and/or reputational consequences which could adversely affect our business, operations, financial condition and reputation.

Disruption of information technology systems or failure to successfully implement new technology systems could significantly interrupt our business, which may adversely affect our business, operations and financial condition.

We and our service offerings (including digital banking) are highly dependent on information technology systems. Therefore, there is a risk that these information technology systems, or the services we use or are dependent upon, might fail, due to hardware or software failure, as well as unauthorized access or use.

Most of our daily operations are computer-based and information technology systems are essential to maintaining effective communications with customers. We are also conscious that threats to information technology systems are continuously evolving and that cyber threats and risk of attacks are increasing. We may not be able to anticipate or implement effective measures to prevent or minimize disruptions that may be caused by all cyber threats because the techniques used can be highly sophisticated and those perpetuating the attacks may be well resourced.

Our exposure to systems risks includes the complete or partial failure of information technology systems or data centre infrastructure, the inadequacy of internal and third-party information technology systems due to, among other things, failure to keep pace with industry developments and the inability of the existing systems to effectively accommodate growth, prevent unauthorized access and integrate existing and future acquisitions and alliances.

To manage these risks, we have disaster recovery and information technology governance in place. However, there can be no guarantee that the steps we are taking in this regard will be effective and any failure of these systems could result in business interruption, customer dissatisfaction, legal or regulatory breaches and liability and ultimately loss of customers, financial compensation, damage to reputation and/or a weakening of our competitive position, which may adversely affect our business, operations and financial condition.

In addition, we have an ongoing need to update and implement new information technology systems, in part to assist us with satisfying compliance obligations arising from changes in the regulatory environment, ensuring information security, enhancing digital banking services for our customers and integrating the various segments of our business. We may not implement these projects effectively or execute them efficiently, which could lead to increased project costs, delays in our ability to comply with regulatory requirements, failure of our information security controls or a decrease in our ability to service our customers. We rely on ANZBGL to provide a number of information technology systems and any failure of ANZBGL systems could directly affect us.

Risks associated with information security including cyber-attacks, may adversely affect our business, operations, financial condition and reputation.

Information security means protecting information and information technology systems from unauthorized access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction. As a bank, we handle a considerable amount of personal and confidential information about our customers and our own internal operations.

We employ a team of information security experts who are responsible for the development and implementation of the ANZ Group's information security policy. We also use third parties to process and manage information on our behalf, and any failure by such third parties could adversely affect our business.

We are conscious that threats to information technology systems are continuously evolving and that cyber threats, including but not limited to, cyber compromise, advanced persistent threats, distributed denial of service, malware and ransomware attacks, and the risk of such attacks are increasing, and as such we may be unable to develop policies and procedures to adequately address or mitigate such risks. Accordingly, information about us and/or our clients may be inadvertently accessed, inappropriately distributed or illegally accessed or stolen.

We may not be able to anticipate or to implement effective measures to prevent or minimize damage that may be caused by all information security threats because the techniques used can be highly sophisticated and those perpetuating the attacks may be well resourced. Any unauthorized access to our information technology systems or unauthorized use of our confidential information could potentially result in disruption of our operations, breaches of privacy laws, regulatory sanctions, legal action, and claims for compensation or erosion of our competitive market position, which could adversely affect our business, operations, financial condition and reputation.

Impact of future climate change, geological events, plant, animal and human diseases, and other extrinsic events may adversely affect our business, operations and financial condition.

We and our customers are exposed to climate related events including climate change. These events include severe storms, drought, fires, cyclones, hurricanes, floods and rising sea levels. We and our customers may also be exposed to other events such as geological events (including volcanic seismic activity or tsunamis), plant, animal and human diseases or a pandemic.

These events may severely disrupt normal business activity and have a negative effect on our business, operations and financial condition. Examples of this are the major earthquakes in the Canterbury and Kaikoura areas. A reduction in the value of New Zealand residential and commercial property as a result of geological events could increase provisioning and lending losses which would adversely affect our business, operations and financial condition.

Depending on their severity, events such as those described above may temporarily interrupt or restrict the provision of some of our services, and may also adversely affect our financial condition or collateral position in relation to credit facilities extended to customers, which may adversely affect our business, operations and financial condition.

Liquidity and funding risk events may adversely affect our financial performance, liquidity, capital resources, business, operations and financial condition.

Liquidity risk is the risk that we are unable to meet our payment obligations as they fall due (including repaying depositors or maturing wholesale debt) or that we have insufficient capacity to fund increases in assets. Liquidity 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 our borrowings and constrain the volume of new lending, which could adversely affect our profitability. Deterioration in investor confidence in us could materially impact our cost of borrowing, and our ongoing operations and funding.

We raise funding from a variety of sources, including customer deposits and wholesale funding in New Zealand and offshore markets to meet our funding obligations and to maintain or grow our business generally. In times of liquidity stress, if there is damage to market confidence in us or if funding inside or outside of New Zealand is not available or constrained, our ability to access sources of funding and liquidity may be constrained and we could be exposed to liquidity risk. In any such cases, we may be forced to seek alternative funding. The availability of such alternative funding, and the terms on which it may be available, will depend on a variety of factors, including prevailing market conditions and our credit ratings. Even if available, the cost of these funding alternatives may be more expensive or on unfavorable terms, which could adversely affect our financial performance, liquidity, capital resources, business, operations and financial condition.

Since the advent of the global financial crisis in 2007, developments in major markets (including the United States, Europe and China) have adversely affected the liquidity in global capital markets and increased funding costs, for significant periods, compared with the period immediately preceding the global financial crisis.

More recently, the provision of significant amounts of liquidity by major central banks globally has helped mitigate near term liquidity concerns, although no assurance can be given such liquidity concerns will not return, particularly when this liquidity is incrementally withdrawn by central banks. The manner in which this process unfolds over the coming years will be a major determinant of market conditions and a deterioration in market conditions may limit our ability to replace maturing liabilities and access funding in a timely and cost-effective manner necessary to fund and grow our businesses.

Changes in fiscal and monetary policies may adversely affect our business, operations and financial condition.

The RBNZ regulates the supply of money and credit in New Zealand. Its policies determine, in large part, the cost of funds to us for lending and investing and the return we will earn on those loans and investments. Both of these affect our net interest margin and can materially affect the value of financial instruments we hold, such as debt securities and hedging instruments. The measures and policies of the RBNZ can also affect our borrowers, potentially increasing the risk that they may fail to repay their loans. On November 7, 2017, the Minister of Finance announced that the Reserve Bank Act will be reviewed and reformed to create a modern monetary and financial policy framework. The first phase of the review resulted in the introduction of the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill (the "**RBNZ Amendment Bill**") to New Zealand Parliament on July 23, 2018. The second phase of the review will be carried out during the end of 2018 and throughout 2019 and may result in further amendments to the Reserve Bank Act being proposed. See "Regulation and Supervision—Review of the Reserve Bank Act" for further discussion. Changes in interest rates and monetary policy are difficult to accurately predict and may have a material adverse effect on our business, operations and financial condition.

Central monetary authorities (including the RBNZ, Reserve Bank of Australia ("**RBA**"), the U.S. Federal Reserve and the monetary authorities in the Asian and European jurisdictions in which we raise funds) set official interest rates or take other measures to affect the demand for money and credit in their relevant jurisdictions. For instance, the U.S. Federal Reserve has been increasing interest rates and anticipates further increasing interest rates for the remainder of 2018, while the RBNZ lowered interest rates in November 2016 and has subsequently indicated it will keep the official cash rate, the interest rate set by the RBNZ, at an expansionary setting for a considerable period to maintain price stability and contribute to maximizing sustainable employment. Changes in monetary policies can significantly affect our cost of funds for lending and investing, as well as the return that we earn on those loans and investments and may adversely affect our business, operations and financial condition.

Acquisitions and divestments may adversely affect our business, operations and financial condition.

We regularly examine a range of corporate opportunities, including acquisitions and divestments, with a view to determining whether those opportunities will enhance our strategic position and financial performance.

There can be no assurance that any acquisition (or divestment) would have the anticipated positive results, including results relating to the total cost of integration (or separation), the time required to complete the integration (or separation), the amount of longer-term cost savings, the overall performance of the combined (or remaining) entity, or an improved price for the ANZ New Zealand Group's securities. Additionally, there are risks relating to the completion of any particular transaction occurring, including counterparty and settlement risk, or the non-satisfaction of any completion conditions (for example, relevant regulatory or third party approvals). Our operating performance, risk profile and capital structure may be affected by these corporate opportunities and there is a risk that any of our credit ratings may be placed on credit watch or downgraded if these opportunities are pursued.

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. This may adversely affect the ANZ New Zealand Group's ability to conduct its business successfully and impact the ANZ New Zealand Group's 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), and the loss of employees, customers, counterparties, suppliers and other business partners could adversely affect the ANZ New Zealand Group's operations or results. Further, there is a risk that completion of an agreed transaction may not occur, including due to failure of the counterparty to satisfy its completion conditions or because other completion conditions such as obtaining relevant regulatory approvals are not satisfied.

Sovereign risk events may destabilize global financial markets and may adversely affect our liquidity, business, operations and financial condition.

Sovereign risk is the risk that foreign 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 risk remains in many economies, including the United States, the United Kingdom, China, Europe and Australia. 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. Such events could destabilize global financial markets and adversely affect our liquidity, business, operations and financial condition.

An increase in the failure of third parties to honor their commitments in connection with our trading, lending, derivatives and other activities may adversely affect our business, operations and financial condition.

We are exposed to the potential risk of credit-related losses that can occur as a result of a counterparty being unable or unwilling to honor its contractual obligations. As with any financial services organization, we assume counterparty risk in connection with our trading, lending, derivatives, insurance and other businesses where we rely on the ability of a third party (including reinsurers) to satisfy its financial obligations to us on a timely basis. We are also subject to the risk that our rights against third parties may not be enforceable in certain circumstances.

There is a risk that subsequent events will not be the same as assumed in our original assessment of the ability of a third party to satisfy its obligations. Such credit exposure may also be increased by a number of factors including the decline in the financial condition of the counterparty, the value of any assets we hold as collateral and the market value of the counterparty instruments and obligations it holds. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether.

To the extent our credit exposure increases, the increase could have an adverse effect on our business, operations and financial condition if material unexpected credit losses occur.

Market risk events may adversely affect our business, operations and financial condition.

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. Losses arising from these risks may adversely affect our business, operations and financial condition. For purposes of financial risk management, we differentiate between traded and non-traded market risks. Traded market risks principally arise from our trading operations in interest rates, foreign exchange, commodities and securities. The non-traded market risk is predominantly interest rate risk in our banking book.

Changes in exchange rates may adversely affect our business, operations and financial condition.

As we conduct business in several different currencies, although mainly in New Zealand dollars, our businesses may be affected by a change in currency exchange rates. Additionally, as our financial statements are prepared and stated in New Zealand dollars any appreciation in the New Zealand dollar against other currencies in which we earn revenues may adversely affect our 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 our business, operations and financial condition. 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.

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 our business, operations, financial condition and reputation.

There have been important and substantial changes to, and increasing regulatory focus on, compliance by all global financial institutions, including us, with global tax reporting regimes, including the U.S. Foreign Account Tax Compliance Act ("**FATCA**"), the OECD's Common Reporting Standard ("**CRS**") and similar anti-tax avoidance regimes. Current regulatory focus also includes enforcement and the due implementation of detailed global tax reporting rules and frameworks to close down the circumvention of global tax reporting regimes and enforcement in the case of non-compliance.

As a global financial institution, we operate in a high volume and globally interlinked operating environment. The highly complex and rigid nature of the obligations under the various global tax reporting regimes in this context present heightened operational and compliance risks for us. This may be coupled with the current increased regulatory scrutiny of global financial institutions (including us) and the increasing trend in compliance breaches by global financial institutions and related fines for non-compliance in general. Accordingly, compliance with global tax reporting regimes will continue to be a key area of focus for us.

The scale and complexity of the ANZ Group and us, like other global financial institutions, 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 us and our employees. Consequences include fines, criminal and civil penalties, civil claims, reputational harm, competitive disadvantage, loss of business and constraints on doing business. These consequences, individually or collectively, may adversely affect our business, operations, financial condition and reputation.

FATCA requires financial institutions globally to undertake ongoing and extensive customer based obligations, including collecting and providing information on account holders who are identified as U.S. citizens or tax residents to the U.S. Internal Revenue Service ("**IRS**"), either directly or via local tax authorities.

If the ongoing detailed obligations under FATCA are not adequately met, the ANZ New Zealand Group and/or our customers could be subject to a 30% withholding tax on certain amounts payable to them. Under a related but separate set of obligations under FATCA, the U.S. could also require us to provide certain information to upstream U.S. payers and we could face adverse consequences if we do not do so in line with the applicable rules and regulations. We are also reliant upon Intergovernmental Agreements ("**IGAs**") between the U.S. and the jurisdictions in which we operate continuing to be in effect. Otherwise we may also be subject to broader compliance issues, significant withholding exposure, competitive disadvantage and other operational impacts.

New Zealand has signed an IGA with the United States and has enacted legislation to implement its agreement with the United States. For more information, see "Taxes—United States federal income taxation—FATCA Withholding" below.

Where ANZ New Zealand or its customers are in receipt of U.S. source income, U.S. Chapter 3 (U.S. non-resident alien withholding and reporting obligations) and U.S. Chapter 4 (the FATCA Regulations) also require ANZ New Zealand to provide certain information to U.S. payers (withholding agents, custodians, etc.). ANZ

New Zealand or its customers may face U.S. penalty withholding tax if it does not provide such information in compliance with the applicable rules and regulations.

The CRS provides for the Automatic Exchange of (financial account) Information in tax matters. Over 100 jurisdictions have committed to implement the CRS which now impacts the vast majority of the ANZ Group's business globally. Early implementation phases are progressing in many countries in which the ANZ Group has operations, for example, Australia, New Zealand, Cayman Islands, Hong Kong, Japan, Singapore and the United Kingdom.

CRS requirements, though similar to FATCA in spirit, have considerable country-by-country variations and may have more significant and negative customer experience ramifications. For example, CRS requires a higher standard of compliance in many respects, such as collection of self-certification at the point of account opening, with penalties for non-collection or failed reporting in respect of prescribed customer information. We are working with the New Zealand Inland Revenue Department ("**IRD**") on the steps the ANZ New Zealand Group needs to take to satisfy the CRS requirements. We have made, and will continue to make, significant investments in order to comply with the CRS and its reporting requirements.

Ongoing OECD peer review and other regulatory review activities are also already resulting in further extension and expansion of existing obligations together with increased focus on compliance with the CRS pushing each country of adoption to ensure that its penalty regime is sufficiently adequate to deter financial institution, intermediary and customer non-compliance.

In line with other global financial institutions, we and the rest of the ANZ Group have made, and are expected to continue to make, significant investments in order to ensure ongoing compliance with the extensive and evolving requirements of FATCA, the CRS, avoidance and loophole model rules and the various other in-country tax reporting initiatives in each country within its global network.

Risk of impairment of goodwill and other intangible assets may adversely affect our results and financial condition.

In certain circumstances, the ANZ New Zealand Group may be exposed to a reduction in the value of intangible assets. As at September 30, 2018, the ANZ New Zealand Group carried a goodwill balance of $3,230 million (including assets held for sale). The ANZ New Zealand Group is required to assess the recoverability of this goodwill balance on at least an annual basis based on a discounted cash flow calculation. Changes in the assumptions upon which the calculation is based, together with expected changes in future cash flows, could materially impact this assessment, resulting in the potential write-off of a part or all of the goodwill balance. Similarly, as at September 30, 2018, the ANZ New Zealand Group carried capitalized software balances and other intangible assets of $160 million and the recoverability of these assets is assessed for indicators of impairment at least annually. In the event that software is no longer in use, or that the cash flows generated by the intangible assets do not support the carrying value, an impairment may be recorded, adversely affecting our results and financial condition.

Changes in the valuation of some of our assets and liabilities may have a material adverse effect on our earnings.

Under NZ IFRS, the ANZ New Zealand Group recognizes the following instruments at fair value with changes in fair value recognised in earnings or equity:

- derivative instruments, including, in the case of fair value hedging, the fair value adjustment on the underlying hedged exposure with changes in fair value recognised in earnings, with the exception of derivatives designated in qualifying cash flow or net investment hedges where the change is recognised in equity and released to earnings together with the underlying hedged exposure;
- assets and liabilities classified as "held for trading";
- financial assets classified as "available for sale" with changes in fair value recognised in equity unless the asset is impaired, in which case, the decline in fair value is recognised in earnings;
- assets classified as "held for sale" where fair value is less than the original carrying amount; and
- assets and liabilities designated at fair value through profit and loss with changes recognised in earnings, with the exception of changes in fair value attributable to the own credit component of liabilities that is recognised in equity.

Generally, in order to establish the fair value of these instruments, 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 discounted cash flow models or other market accepted valuation techniques. In certain circumstances, the data for individual financial instruments or classes of financial instruments used by such estimates or techniques may not be available or may become unavailable due to changes in market conditions. In these circumstances, the fair value is determined using data derived and extrapolated from market data, and tested against historic transactions and observed market trends.

The valuation models incorporate the impact of factors that would influence the fair value determined by a market participant. Principal inputs used in the determination of the fair value of financial instruments based on valuation techniques include data inputs such as statistical data on delinquency rates, foreclosure rates, actual losses, counterparty credit spreads, recovery rates, implied default probabilities, credit index tranche prices and correlation curves. These assumptions, judgments and estimates need to be updated to reflect changing trends and market conditions. The resulting change in the fair values of the financial instruments could have a material adverse effect on ANZ New Zealand Group's earnings.

Changes to accounting policies may adversely affect our financial position and results of operations.

The accounting policies that we apply are fundamental to how we record and report our financial position and results of our operations. The accounting policies for the ANZ New Zealand Financial Statements at and for the financial years ended September 30, 2018 and September 30, 2017 are set forth in Note 1 to the 2018 ANZ New Zealand Financial Statements and the 2017 ANZ New Zealand Financial Statements. 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 financial position and results of operations. However, these accounting policies may be applied inaccurately, resulting in a misstatement of our financial position and results of operations. In addition, the application of new or revised accounting standards or interpretations may adversely affect our financial position and results of operations.

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

Litigation and contingent liabilities may adversely affect our business, operations, financial condition and reputation.

From time to time, we may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities, which may adversely affect our business, operations, financial condition and reputation. 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. There is a risk that these contingencies may be larger than anticipated or that additional litigation or other contingent liabilities will arise.

Details regarding our material contingent liabilities as at September 30, 2018, are contained in Note 27 to the 2018 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 we engage with our regulators. Globally there have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators, particularly against financial institutions globally and customer claims. The nature of these investigations and reviews can be wide ranging and, for example, may include a range of matters including responsible lending practices, product suitability, wealth advice and adequacy of product disclosure documentation. We have received various notices and requests for information from our regulators as part of both industry-wide and reviews specific to us, and we have also made disclosures to our regulators at our own instigation. 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 these contingent liabilities may be larger than anticipated or that additional litigation, regulatory actions, legal or arbitration proceedings or other contingent liabilities may arise.

The unexpected loss of key staff or inadequate management of human resources may adversely affect our business, operations and financial condition.

Our ability to attract and retain suitably qualified and skilled employees is an important factor in achieving our strategic objectives. At the ANZ New Zealand Group, there are certain individuals and key executives whose skills and reputation are critical to setting the strategic direction, successful management and growth of the ANZ New Zealand Group, and whose unexpected loss due to resignation, retirement, death or illness may adversely affect its business, operations and financial condition. In addition, we may have difficulty attracting highly-qualified people to fill important roles in the future, particularly in times of strategic or regulatory change, which could adversely affect our business, operations and financial condition. For example, the Australian Banking Executive Accountability Regime may impact our ability to attract and retain high-quality senior executives. For more information, see "Regulation and Supervision—Australian Banking Executive Accountability Regime ("**BEAR**")."

The assets of the ANZNZ Covered Bond Trust are not available to creditors of ANZ New Zealand, including holders of Notes issued by ANZNIL or ANZ New Zealand.

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 September 30, 2018, the rights to cash flows associated with housing loans and related securities with a carrying value of $10,747 million or 6.8% 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.

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 of asset(s) to be delivered upon redemption being reduced to or being valued at an amount less than an investor's initial investment.

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 to QIBs in transactions that are either exempt from registration pursuant to Section 4(a)(2) of, and Rule 144A under, the Securities Act, or are not subject to registration in reliance on Regulation S. 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, you must be able to bear the economic risk of an investment in your Notes for an indefinite period of time.

Redemption may adversely affect your 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 relevant Final Terms may specify that the Notes are redeemable at our option. We may choose to redeem your Notes at times when prevailing interest rates are lower than when you invested. In addition, if your Notes are subject to mandatory redemption, we may be required to redeem your Notes at times when prevailing interest rates are lower than when you invested. As a result, you 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 your Notes being redeemed.

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 depositary for DTC and/or an alternative clearing system (the "**Depositary**"). 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 Depositary, 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 Depositary 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 Depositary 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 Depositary), as well as general laws relating to securities transfers. We do not recognize this type of investor or any intermediary as a holder of Notes and instead deal only with the Depositary 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.

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.

Because the Fiscal Agency Agreement contains no limit on the amount of additional debt that we may incur, our ability to make timely payments on the Notes you hold may be affected by the amount and terms of our future debt.

Our ability to make timely payments on our outstanding debt may depend on the amount and terms of our other obligations, including any outstanding Notes. The Fiscal Agency Agreement does not contain any limitation on the amount of indebtedness that we may issue in the future. As we issue additional Notes under the Fiscal Agency Agreement or incur other indebtedness, unless our earnings grow in proportion to our debt and other fixed charges, our ability to service the Notes on a timely basis may become impaired.

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.

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.

Modification and waivers and substitution bear certain risks.

The terms of the Notes contain provisions for calling meetings of holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority.

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, we cannot ensure that a trading market for your Notes will ever develop or be maintained if developed. In addition to our 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
- our financial condition and results of operations.

There may be a limited number of buyers when you decide to sell the Notes. This may affect the price you receive 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. You should not purchase the Notes unless you understand and know you can bear all of the investment risks involving the Notes.

The Notes may be de-listed, which may materially affect your ability to resell.

Any Notes that are listed on the London Stock Exchange may be de-listed. We may, but are not obligated to, seek an alternative listing. However, if such an alternative listing is not available or in our opinion 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 your ability to resell your Notes in the secondary market.

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

If you invest in a non-U.S. dollar Note, you 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. We 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 your payment currency would result in a decrease in the U.S. dollar equivalent yield of your 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 your non-U.S. dollar Notes and, generally, in the U.S. dollar equivalent market value of your non-U.S. dollar Notes.

Governmental exchange controls could affect exchange rates and the availability of the payment currency for your non-U.S. dollar Notes on a required payment date. Even if there are no exchange controls, it is possible that your payment currency will not be available on a required payment date for circumstances beyond our control. In these cases, we will be allowed to satisfy our obligations in respect of your 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.

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.

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 Noteholder or a Noteholder's bank or broker to provide information to taxing authorities.

A withholding tax of 30% may be imposed on payments made with respect to the Notes. This withholding tax generally will 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 Noteholder 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 Noteholder will receive less than the expected amount of the payment.

Prospective 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.

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

The London Inter-Bank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other benchmark indices are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms, such as the replacement of the British Bankers' Association ("**BBA**") as LIBOR administrator with ICE Benchmark Administration Limited, are already effective while others are still to be implemented. The implementation of such reforms and consequential changes to benchmark indices may cause them to perform differently than in the past, which could have a material adverse effect on the 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.

Key international proposals for reform of "benchmarks" include the Benchmark Regulation, which was published in the Official Journal on June 29, 2016 and has applied from January 1, 2018 with the exception of certain provisions that began to apply from June 30, 2016.

The Benchmark Regulation applies to "contributors", "administrators" and "users" of "benchmarks" in the EU, and, among other things, (i) requires benchmark administrators to be authorized or registered (or, if non-EU-based, to have satisfied certain "equivalence" conditions in its local jurisdiction, to be "recognized" by the authorities of a member state of the EU pending an equivalence decision or for the benchmark being provided to have been "endorsed" for such purpose by a EU competent authority) and to comply with requirements in relation to the administration of "benchmarks" and (ii) bans the use by supervised entities of "benchmarks" provided by unauthorized or unregistered benchmark administrators (or, if non-EU-based, not deemed equivalent, recognized or endorsed).

The Benchmark Regulation could have a material impact on Floating Rate Notes linked to a "benchmark" rate or index, including in any of the following circumstances:

- a rate or index which is a "benchmark" could not be used as such if its administrator does not obtain authorization or is based in a non-EU jurisdiction which (subject to applicable transitional provisions) does not satisfy the "equivalence" conditions, is not "recognized" pending such a decision and is not "endorsed" for such purpose. In such event, depending on the particular "benchmark" and the applicable terms of the Floating Rate Notes, the Floating Rate Notes could be de-listed, adjusted, redeemed prior to maturity or otherwise impacted; and

- the methodology or other terms of the "benchmark" could be changed in order to comply with the terms of the Benchmark Regulation, and such changes could have the effect of reducing or increasing the rate or level of the benchmark or affecting the volatility of the published rate or level of the benchmark or index.

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".

As an example of such benchmark reforms, on July 27, 2017, the FCA announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicates that the continuation of LIBOR on the current basis (or at all) cannot and will not be guaranteed after 2021 and that planning a transition to alternative reference rates that are based firmly on transactions, such as reformed SONIA (the Sterling Over Night Index Average), must begin. Additionally, on September 21, 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a "risk free overnight rate" which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts.

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 Base Rate (as defined herein), or changes in the manner of administration of any Base Rate, could require or result in an adjustment to the interest calculation provisions of the Floating Rate Notes or result in adverse consequences to holders of any securities linked to such Base Rate (including but not limited to Floating Rate Notes and Inverse Floating Rate Notes whose interest rates are linked to LIBOR or any other Base Rate 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 Base Rate may adversely affect such Base Rate during the term of the relevant Floating Rate Notes, the return on the relevant Floating Rate Notes and the trading market for securities based on the same Base Rate. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for Floating Rate Notes.

In particular, you should be aware that if you purchase Floating Rate Notes, including LIBOR Notes, and the Benchmark Disruption Event (as defined herein) occurs, the Calculation Agent (as defined herein) will determine interest on the affected Floating Rate Note in accordance with the "Benchmark Replacement" provisions described under "Description of the Notes and the Guarantee—Interest rates—Base Rates—Benchmark Replacement". The Benchmark Replacement provisions provide for certain fallback arrangements in the event that a published Base Rate, such as LIBOR (including any Reuters Page on which such Base Rate may be published (or any replacement service)), becomes unavailable, including the possibility that the Base Rate could be set by reference to a substitute or successor rate that the Calculation Agent has determined in its sole discretion to be (a) the industry-accepted successor rate to the Base Rate or (b) if no such industry-accepted successor rate exists, the most comparable substitute or successor rate to the relevant Base Rate and that the Calculation Agent may determine any relevant methodology for calculating such substitute or successor rate, including any adjustment factor it determines is needed to make such substitute or successor rate comparable to the relevant Base Rate, in a manner that is consistent with industry-accepted practices for such substitute or successor rate. No consent of the Noteholders shall be required in connection with effecting any relevant substitute or successor rate or any other related adjustments. The use of a substitute or successor rate may result in interest payments that are substantially lower than or that do not otherwise correlate over time with the payments that could have been made on the relevant Floating Rate Notes if the relevant Base Rate remained available in its current form. In certain circumstances under the Benchmark Replacement provisions, the ultimate fallback rate of interest for a particular interest period may result in the rate of interest determined for the previous interest period being used. This may result in the effective application of a fixed interest rate for a Floating Rate Note based on the interest rate that was in effect for the prior interest period. In addition, due to the uncertainty concerning the availability of substitute or successor rates, the relevant fallback provisions may not operate as intended at the relevant time. Any of the above changes or any other consequential changes to LIBOR or any other Base Rate as a result of international, national or other proposals for reform or other initiatives or investigations, could result in adjustment to the terms of the relevant Floating Rate Notes or other consequences, depending on the specific provisions of the relevant Floating Rate Notes, and could have a material adverse effect on the value of and return on any Floating Rate Notes linked to a Base Rate.

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 you purchase a Fixed Rate Note and market interest rates increase, the market values of your Fixed Rate Note may decline. We cannot predict the future level of market interest rates.

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. Potential 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 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, Noteholders 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, Noteholders 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 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 Noteholders 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 Noteholders might be entitled only to a recovery in New Zealand dollars.

Use of Proceeds

ANZNIL will on-lend the net proceeds from the sale of all ANZNIL Notes to ANZ New Zealand. 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.

Capitalization, Funding and Capital Adequacy

The following table sets out the consolidated capitalization and capital adequacy of the ANZ New Zealand Group as at September 30, 2018. This information has been extracted from the ANZ New Zealand Financial Statements for the financial year ended September 30, 2018, included as part of Annex A to this Offering Memorandum. For more information concerning our capitalization and capital adequacy see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Offering Memorandum.

	As at September 30, 2018	
	(US$ millions, except as indicated)[1]	**(NZ$ millions, except as indicated)**
Capitalization and Funding		
Settlement balances payable	**1,434**	**2,161**
Collateral received	**561**	**845**
Deposits and other borrowings	**71,663**	**108,008**
Derivative financial instruments	**5,371**	**8,095**
Current tax liabilities	**107**	**161**
Deferred tax liabilities	**14**	**21**
Liabilities held for sale	**222**	**334**
Payables and other liabilities	**628**	**947**
Provisions		
Credit impairment	**340**	**512**
Other	**130**	**196**
Total provisions	**470**	**708**
Unsubordinated debt	**15,059**	**22,696**
Subordinated debt	**1,618**	**2,439**
Total equity[2]	**8,698**	**13,109**
Total Capitalization and Funding[3,4,5]	**105,844**	**159,524**
Capital Adequacy		
Tier 1 capital		
Common equity tier 1 capital		
Paid up ordinary shares issued by ANZ New Zealand	**7,689**	**11,588**
Retained earnings (net of appropriations)	**788**	**1,188**
Accumulated other comprehensive income and other disclosed reserves	**22**	**33**
Less deductions from common equity tier 1 capital		
Goodwill and intangible assets, net of associated deferred tax liabilities	**(2,243)**	**(3,381)**
Cash flow hedge reserve	**(15)**	**(22)**
Expected losses to the extent greater than total eligible allowances for impairment	**(216)**	**(325)**
Common equity tier 1 capital	**6,025**	**9,081**
Additional tier 1 capital		
Preference shares	**199**	**300**
ANZ Capital Notes	**1,620**	**2,441**
Retained earnings of the Bonus Bonds Scheme	**36**	**55**
Less deductions from additional tier 1 capital		
Surplus retained earnings of the Bonus Bonds Scheme	**(13)**	**(20)**
Additional tier 1 capital	**1,842**	**2,776**
Total tier 1 capital	**7,867**	**11,857**
Total tier 2 capital	**-**	**-**
Total capital	**7,867**	**11,857**
Capital ratios (%)		
Common equity tier 1 capital	**11.1%**	**11.1%**
Tier 1 capital	**14.4%**	**14.4%**
Total capital	**14.4%**	**14.4%**
Buffer ratio	**6.4%**	**6.4%**

(1) For the convenience of the reader, the financial data for the financial year ended September 30, 2018 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 28, 2018 of NZ$1.00=US$0.6635.

(2) Total equity at September 30, 2018 comprised (NZ$ millions):

	As at September 30, 2018
Ordinary share capital	**11,588**
Preference share capital	**300**
Reserves	**33**
Retained earnings	**1,188**
Total equity	**13,109**

All of the ordinary share capital has been issued. The number of issued ordinary shares at September 30, 2018 was 6,345,755,498 of which 6,345,104,786 were fully paid. 650,712 shares were uncalled and unpaid.

ANZ New Zealand has issued 300,000,000 preference shares to its immediate parent, ANZ Holdings (New Zealand) Limited, which do not carry any voting rights.

(3) As at September 30, 2018, all funding was unsecured except for: UDC secured investments of $931 million, covered bonds of $3,929 million, securities sold under repurchase agreements of $517 million, cash collateral received on derivative financial instruments of $845 million, and derivative financial liabilities which are secured by $1,919 million of cash collateral given on derivative financial instruments.

(4) Face or contract value of contingent liabilities and guarantees outstanding as at September 30, 2018 amounted to $2,860 million.

(5) Total due to ANZBGL as at September 30, 2018, consisted of (NZ$ millions):

	As at September 30, 2018
Settlement balances payable	**125**
Collateral received	**257**
Deposits and other borrowings	**40**
Derivative financial liabilities	**2,249**
Payables and other liabilities	**30**
Unsubordinated debt	**-**
Subordinated debt	**1,941**
Total due to ANZBGL	**4,642**

The following table sets out the capitalization and funding of ANZNIL as at September 30, 2018, and has been extracted from the ANZNIL Financial Statements for the financial year ended September 30, 2018, included as part of Annex A-1 to this Offering Memorandum.

NZ$ millions (unless otherwise stated)	As at September 30, 2018 US$ millions[1]	
Capitalization and Funding		
Accrued interest payable	**27**	**40**
Commercial paper	**1,649**	**2,486**
Current tax liabilities	**1**	**1**
Unsubordinated debt	**12,461**	**18,781**
Total equity[2]	**3**	**5**
Total Capitalization and Funding[3,4,5,6]	**14,142**	**21,314**

(1) Translated from NZ dollars into U.S. dollars using the Noon Buying Rate on September 28, 2018 of NZ$1.00=US$0.6635.

(2) Total ANZNIL equity at September 30, 2018, consists of retained profits and ordinary share capital. All of ANZNIL's ordinary share capital has been issued. The number of issued and paid up ordinary shares as at September 30, 2018 was 500,000.

(3) As at September 30, 2018, commercial paper of $2,486 million and unsubordinated debt of $18,781 million issued by ANZNIL were guaranteed by ANZ New Zealand.

(4) As at September 30, 2018, covered bonds with a carrying value of $3,958 million included in unsubordinated debt were also guaranteed by ANZNZ Covered Bond Trust Limited as trustee of ANZNZ Covered Bond Trust.

(5) There were no contingent liabilities and guarantees of ANZNIL outstanding as at September 30, 2018.

(6) As of the date of this Offering Memorandum, there has been no material change in the capitalization and funding and amount of contingent liabilities and guarantees of ANZNIL since September 30, 2018.

Exchange Rates

The following table sets forth for each of the financial years and months indicated:

- the high and low rates of exchange of each period;
- the average rate of exchange based on the last business day of each month during each financial year;
- the average rate of exchange during each month; and
- the rate of exchange on the last business day of each period,

in each case for the New Zealand dollar, expressed in U.S. dollars, based on 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 ("**Noon Buying Rate**"). The New Zealand dollar is convertible into U.S. dollars at freely floating rates and there are currently no restrictions on the flow of New Zealand currency between New Zealand and the United States.

Exchange rates of U.S. dollars per NZ$1.00

Financial year ended September 30,	At Year End	High	Low	Yearly Average[1]
2014	0.7788	0.8814	0.7788	0.8360
2015	0.6390	0.7968	0.6244	0.7213
2016	0.7290	0.7451	0.6389	0.6901
2017	0.7225	0.7506	0.6849	0.7161
2018	0.6635	0.7407	0.6512	0.6960

Month	At Month End	High	Low	Monthly Average[2]
June 2018	0.6773	0.7047	0.6759	0.6942
July 2018	0.6812	0.6838	0.6702	0.6789
August 2018	0.6614	0.6795	0.6558	0.6669
September 2018	0.6635	0.6679	0.6512	0.6598
October 2018	0.6530	0.6613	0.6439	0.6537
November 2018	0.6880	0.6880	0.6642	0.6777

(1) Unless otherwise specified, the yearly average rate is calculated from the Noon Buying Rate on the last business day of each month during the period.

(2) Unless otherwise specified, the monthly average rate is calculated from the Noon Buying Rate on each business day during the period.

The following table sets forth for each of the periods indicated, certain information concerning the rate of exchange of the Australian dollar into New Zealand dollars, based on the rates determined by the RBA at 4:00 P.M., Eastern Australian time.

Exchange rates of New Zealand dollars per A$1.00

Financial year ended September 30,	At Year End	High	Low	Yearly Average[1]
2014	1.1216	1.1566	1.0548	1.0966
2015	1.0998	1.1425	1.0064	1.0789
2016	1.0484	1.1303	1.0270	1.0730
2017	1.0871	1.1107	1.0373	1.0661
2018	1.0921	1.1270	1.0517	1.0900

Month	At Month End	High	Low	Monthly Average[2]
June 2018	1.0903	1.0903	1.0659	1.0792
July 2018	1.0885	1.0974	1.0872	1.0906
August 2018	1.0919	1.1149	1.0894	1.0990
September 2018	1.0921	1.0972	1.0883	1.0916
October 2018	1.0827	1.0985	1.0785	1.0882
November 2018	1.0659	1.0848	1.0631	1.0704

(1) The period average rates for each year are based on the average closing rate on the last day of each month during such year.

(2) The period average rates for each month are based on the average closing rate for all business days of such month.

Regulation and Supervision

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 for the purposes of:

- promoting the maintenance of a sound and efficient financial system; or
- 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 management of 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.

New Zealand 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.

On May 29, 2018, the RBNZ began publishing a quarterly “dashboard” of key information on banks incorporated in New Zealand on the RBNZ's website. The quarterly dashboard replaced the requirement for banks registered in New Zealand to issue disclosure statements for ‘off-quarters’ of the financial year, with effect from the quarter ending March 31, 2018. The information is sourced from private reporting that such banks provide to the RBNZ. Information relating to the ANZ New Zealand Group published in the RBNZ’s quarterly dashboard on the RBNZ's website is not incorporated by reference herein and does not form part of this Offering Memorandum and, in some cases, information relating to the ANZ New Zealand Group published in the RBNZ’s quarterly dashboard on the RBNZ's website has not been prepared on a consistent basis with the information presented in the ANZ New Zealand Financial Statements.

New Zealand registered banks are required to comply with the Basel III capital adequacy requirements, as modified to reflect New Zealand conditions. The RBNZ also requires most banks incorporated in New Zealand, 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.

New Zealand incorporated banks (including ANZ New Zealand) are required to comply with BS13. BS13 requires registered banks to meet a minimum core funding ratio of 75%, ensuring that at least a minimum proportion of bank funding is met through customer deposits, term wholesale funding and Tier 1 capital. 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 new liquidity standards are not suitable for adoption in New Zealand. The RBNZ has previously stated that it will be reviewing its liquidity policy in light of the Basel Committee on Banking Supervision’s new liquidity requirements.

The RBNZ currently 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

CRS

The OECD’s CRS provides for the automatic exchange of financial account information in tax matters. New Zealand gave effect to the CRS from July 1, 2017.

Certain New Zealand financial institutions are required to conduct customer on-boarding requirements and due diligence in respect of certain financial accounts and report information to the IRD. The IRD may then provide this information to the tax authorities of other jurisdictions, with the first government-to-government exchange of information having taken place by September 30, 2018. Holders of Notes may be required to provide certain information and certifications to ensure compliance with the CRS.

New Zealand financial institutions that do not fully comply with the CRS may be subject to administrative penalties. See "Risk Factors—Risks relating to our 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 our business, operations, financial condition and reputation" in this Offering Memorandum for more information.

RBNZ prudential credit controls

The RBNZ imposes restrictions on high LVR residential mortgage lending. New Zealand banks must restrict new non property-investment residential mortgage lending over 80% LVR to no more than 15% (increasing to 20% effective from January 1, 2019) of the dollar value of a bank's new non property-investment residential mortgage lending. New Zealand banks must also restrict property investment residential mortgage lending over 65% (increasing to 70% effective from January 1, 2019) LVR to no more than 5% of the dollar value of a bank's new property investment residential mortgage lending. The RBNZ has also set a specific asset class for loans to residential property investors. New Zealand banks must hold more capital for loans to residential property investors.

RBNZ review of capital requirements

In May 2017 the RBNZ published an issues paper that outlined its comprehensive review of the capital adequacy framework applying to New Zealand locally incorporated registered banks. The aim of the review is to identify the most appropriate framework for setting capital requirements for New Zealand banks, taking into account how the current framework has operated and international developments in bank capital requirements. The review focuses on the three key components of the current framework:

- the definition of eligible capital instruments;
- the measurement of risk; and
- the minimum capital ratios and buffers.

In July 2017, the RBNZ released a consultation paper on what types of financial instruments should qualify as eligible regulatory capital. In December 2017, the RBNZ published its response to submissions on this paper, including its in-principle decisions to:

- remove contingent debt and contingent preference shares from the definition of eligible regulatory capital;
- accept non-redeemable, non-contingent, perpetual preference shares as Additional Tier 1 capital;
- accept redeemable, non-contingent preference shares and long term subordinated debt as Tier 2 capital; and
- retain the option of including in the regime a Tier 1 instrument able to be issued by mutual societies.

The RBNZ advised that further in-principle decisions on the definition of eligible regulatory capital will be announced in due course. A work program aimed at giving effect to these decisions will be released for public consultation.

The RBNZ also released a consultation paper on the calculation of risk weighted assets ("**RWA**") for credit risk, operational risk and market risk. Submissions on this paper closed in March 2018. On July 6, 2018, the RBNZ published its response to submissions on this paper including its in-principle decisions. These are:

- continuing to allow permitted qualifying banks (including ANZ New Zealand) to use internal models to estimate credit-risk related RWA (the 'IRB' approach) (although there will be more restrictions on modelling);
- the IRB approach will not be permitted for credit exposure with an external rating (such as sovereigns, banks and some large corporations);
- there will be a RWA floor imposed on IRB models;
- all banks will be required to calculate RWA arising from operational risk in the same way using the Basel Standardised Measurement Approach; and

- IRB banks will be required to report RWA (and resulting credit ratios) using both internal models and the standardised approach.

In September 2018, the RBNZ conducted a Quantitative Impact Study ("**QIS**") to assess the impact of its in-principle decisions on the framework for calculating RWA. The QIS covered the four New Zealand banks (including ANZ New Zealand) that use internal models to calculate RWA.

A further RBNZ consultation paper is targeted to be released in the final quarter of the 2018 calendar year with a focus on setting the ratios used by banks to calculate minimum capital requirements.

The RBNZ has announced that it is aiming to release its final decisions on all key components of the capital review in the second quarter of the 2019 calendar year.

The RBNZ is also continuing to work on an exercise with New Zealand's four largest banks, including ANZ New Zealand, to investigate differences in risk weights across internal bank models of housing and rural lending portfolios.

RBNZ's revised outsourcing policy

The RBNZ's updated outsourcing policy ("**BS11**") requires large New Zealand 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, 2022, to transition to full compliance with BS11.

Conditions of Registration

The BS11 requirements form part of ANZ New Zealand's conditions of registration. If we do not comply with our condition of registration in relation to outsourcing, the RBNZ could take enforcement action, such as imposing fines or putting further restrictions on our use of outsourcing.

ANZ New Zealand is implementing a formal program to carry out its Path-to-Compliance Plan for BS11.

In order to be compliant with BS11, we 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 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 by October 1, 2019.
- All contracts to which BS11 applies must include prescribed contractual terms allowing RBNZ access to details of the contract and service, and not allowing the vendor to terminate if we are under statutory management.
- 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 we 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, 2022 and will be subject to annual testing.

- ANZ 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 five-year transition period and at least every three years thereafter.

Review of foreign margin requirements for OTC derivatives

Since late 2016, the RBNZ and MBIE have, in co-ordination with the New Zealand Treasury, been engaging with industry and overseas regulators to assess the likely domestic impact of new offshore derivative margin requirements. Although New Zealand has no legislative margin requirements for OTC derivatives, the OTC activities of several registered banks (including ANZ New Zealand) are impacted by margin rules being implemented in foreign jurisdictions. In July 2017, MBIE and the RBNZ released a consultation paper which described potential impediments in New Zealand legislation to compliance with foreign margin requirements (in particular, statutory moratoria on creditors' claims under insolvency or restructuring regimes, and the ranking of creditors in certain circumstances) and suggested several high level options for reform, including a preferred option to enact targeted legislative amendments to address those impediments. The New Zealand Bankers' Association co-ordinated an industry response to the consultation paper which was submitted in August 2017.

The New Zealand Government has announced its intention to amend legislation to address aspects of New Zealand law that impede the ability of certain New Zealand entities (including registered banks) to comply with foreign margin requirements. The amendments will mean that derivative counterparties, which enter into derivatives with these New Zealand entities, will be able 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. More specifically, the amendments will:

- 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 derivatives counterparties enforce their security interest over margin, their claim ranks ahead of other potential claims under the Companies Act 1993 and the Personal Property Securities Act 1999.

A bill implementing the amendments is expected to be introduced into New Zealand Parliament in late 2018. The New Zealand legislative impediments described above have resulted in a reduction of the number of counterparties with which ANZ New Zealand is able to enter into uncleared OTC derivative transactions.

New Zealand Financial Markets Authority guidance on the Bank Bill Benchmark ("BKBM")

In October 2017, the FMA released a guidance note clarifying its expectations about the trading conduct and controls for firms participating in the trading that sets BKBM and closing rates in the New Zealand market. Although the note aims to reduce regulatory uncertainty (and does not create any new legal obligations), market participants remain responsible for ensuring that trading conduct of their staff is legal and appropriate. Where the FMA identifies inappropriate trading conduct, its response will take into account the measures participants take to try to ensure good trading conduct.

New Zealand's current regulatory regime for BKBM has been judged as not sufficient to meet the EU equivalence standard. Without regulatory reform, the use of BKBM will be restricted in the EU from January 1, 2020. A working group, comprising of MBIE, the FMA and the RBNZ, has been established to facilitate changes to New Zealand legislation and/or enter info further negotiations with the EU, to ensure that BKBM remains an approved benchmark.

Replacement of the Financial Advisers Act 2008

New Zealand's financial advice regime is being modified. The Financial Advisers Act 2008, which is the primary legislation governing the provision of financial advice in New Zealand will be repealed by the Financial Services Legislation Amendment Bill (the "**Bill**"). The Bill will insert the provisions of the new financial advice regime into the Financial Markets Conducts Act 2013 and amend 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 financial advice to retail clients;

- requiring all people who give regulated financial advice to comply with standards of ethical behaviour, conduct, and client care;

- adding a requirement 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; and

- amending the requirements to be registered on the New Zealand Financial Service Providers Register to prevent its misuse.

Financial advice providers will be required to hold a transitional licence when the new regime comes into force and a full licence will be required within a two year transitional period. It is anticipated that the new regime will come into force by the second quarter of 2020.

Anti-Money Laundering and Countering Financing of Terrorism Act 2009

In August 2017, the NZ AML/CFT Act was amended to, among other things, include an obligation to report suspicious activity, enable a reporting entity to rely on customer due diligence carried out by other persons and create additional simplified customer due diligence categories.

In addition, reporting entities (including ANZ New Zealand) should report all international funds transfers exceeding NZD$1,000 along with all cash transactions exceeding NZD$10,000 to the Financial Intelligence Unit of the New Zealand Police within 10 working days (irrespective of any suspicion that may exist in relation to the underlying transaction). These regulations came into force on November 1, 2017, subject to a transitional compliance period that ended on July 1, 2018.

RBNZ consultation on Debt-to-Income ("DTI") rules

In June 2017, the RBNZ released a consultation paper seeking feedback on serviceability restrictions such as DTI limits being added to its macro prudential toolkit. The RBNZ stated that the purpose of the consultation was to gather feedback from the public on the prospect of including DTI limits in the Memorandum of Understanding ("**MOU**") on macro-prudential policy between the Minister of Finance and Governor of the RBNZ. The MOU determines the set of macro-prudential tools available to the RBNZ and how those tools should be used. The consultation paper outlines the RBNZ's view on these issues and states that the RBNZ would not implement a DTI policy in current market conditions, but that the DTI limits could be a useful option in the future. Submissions closed in August 2017, and the feedback will be used by the RBNZ and New Zealand Treasury in discussing potential amendment of the MOU with the Minister of Finance.

On November 23, 2017, the RBNZ published the submissions it received as part of the consultation and a paper outlining its response. Given the RBNZ's perception of a slowdown in the housing market, it does not consider a serviceability restriction would be appropriate at the present time, but believes that it could still have a role to play in the future. The RBNZ considers that the potential future use of serviceability restrictions could be reconsidered as part of the wider review and reform of the Reserve Bank Act (see "—Review of the Reserve Bank Act" below).

Review of the Reserve Bank Act

In November 2017, the New Zealand Government announced it would undertake a review of the Reserve Bank Act and the Terms of Reference for the review of the Reserve Bank Act were released. The goal of the review is to modernize New Zealand's monetary and financial stability policy frameworks and the RBNZ's governance and accountability settings.

The review will be undertaken in two phases:

- Phase one has commenced with the key policy decisions announced on March 26, 2018 to: include supporting maximum sustainable employment alongside inflation targeting as an objective of monetary policy; and to require that monetary policy decisions be made by a Monetary Policy Committee of 5-7 members. The majority of members of the Monetary Policy Committee will be RBNZ staff, and a minority will be outside experts not employed by the RBNZ. Members of the Monetary Policy Committee will be appointed by the Minister of Finance following a nomination by the RBNZ Board. However, the RBNZ will retain its operational independence which enables it to make monetary policy decisions to achieve its monetary policy objectives independent of direction from the New Zealand Government. On July 26, 2018, the RBNZ Amendment Bill, which implements these policy decisions, passed its first reading in Parliament. The RBNZ Amendment Bill has been referred to the Finance and Expenditure Committee with a report due on December 3, 2018.

- Phase two will primarily involve a comprehensive review of the financial policy provisions of the Reserve Bank Act. These provisions provide the legislative basis for the RBNZ's prudential regulation and supervision functions. Phase two will include three rounds of public consultation. The RBNZ released the first consultation paper on November 1, 2018, which covers the following topics: the RBNZ's overarching objectives; the 'perimeter' for prudential regulation; the case for and against depositor protection; the case for and against separating prudential supervision from the RBNZ; and the RBNZ's institutional governance and decision-making framework. Consultation closes on the first consultation paper on January 25, 2019. The second consultation paper, which will be released in mid-2019, will cover the following topics: the legal basis for bank regulation; the approach to supervision and enforcement of bank regulation macro-prudential policy; crisis management; the RBNZ's resourcing and funding; and seek feedback on the preferred options from the first consultation. A third consultation paper will be released late in 2019 which will seek feedback on the preferred options from the second consultation. It is expected that final policy decisions on phase two will be made by the New Zealand Government in 2020.

RBNZ review of mortgage bond collateral standards

The RBNZ is consulting 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 proposes to gradually phase in RMO to replace internal residential mortgage backed securities over a transition period. In November 2018, the RBNZ published an exposure draft of the RMO standard for a second and final round of public consultation. The RBNZ intends to publish a final policy defining the RMO framework in March 2019 with implementation commencing from June 2019, subject to a five-year transition period.

FMA and RBNZ conduct and culture review

Following the Australian Royal Commission, the FMA and the RBNZ conducted a joint review of conduct and culture in the New Zealand banking sector. In May 2018, the FMA and the RBNZ asked New Zealand banks to provide them with specific information to give assurance that the type of misconduct highlighted in the Australian Royal Commission was not taking place in New Zealand. Each New Zealand bank was asked to provide a summary of work, both completed and ongoing, to identify and address conduct and culture issues. The FMA and the RBNZ also conducted onsite interviews. On November 5, 2018, the FMA and the RBNZ released the findings of their industry review. The industry report, released in November 2018, found that conduct and culture issues do not appear to be widespread in New Zealand banks at this time. 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.

Each bank that took part in the review, including ANZ New Zealand, will receive or has received a tailored report detailing the FMA's and RBNZ's observations and recommendations. Each bank is required to provide a response to their specific reports and their plans to address the FMA's and RBNZ's feedback by March 31, 2019. ANZ New Zealand received its specific report on November 28, 2018.

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 purpose of this review was for the FMA to understand and assess the design of banks' incentives schemes for salespeople, and how related conflicts of interest are managed. 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. The FMA states in its findings that it expects banks to ensure they achieve consistently good outcomes for their customers and that this includes designing and managing incentive schemes in a way that leads to good customer outcomes. The FMA has asked banks to explain how they will meet the FMA's expectations by March 2019 and the FMA will report on those responses.

Restrictions on ANZBGL's ability to provide financial support

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 our business, results of operations, liquidity, capital resources or financial condition. APRA Prudential Standard APS 222 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 prudential limits on intra-group exposures.

Under APS 222, ANZBGL's ability to provide financial support to us is subject to certain restrictions:

(a) ANZBGL should not undertake any third party dealings with the prime purpose of supporting our business;

(b) ANZBGL must not hold unlimited exposures (i.e., should be limited as to specified time and amount) in ANZ New Zealand (e.g., not provide a general guarantee covering any of our obligations);

(c) ANZBGL must not enter into cross-default clauses whereby a default by ANZ New Zealand on an obligation (whether financial or otherwise) is deemed to trigger a default of ANZBGL on its obligations; and

(d) the level of exposure 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 (being exposures to all similar regulated entities related to ANZBGL).

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 its New Zealand branch) during ordinary times. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to ANZ New Zealand during times of financial stress.

APRA also confirmed that contingent funding support by ANZBGL to ANZ New Zealand during times of financial stress must be provided on terms that are acceptable to APRA and that ANZBGL's exposures to its New Zealand operations must not exceed 50% of ANZBGL's Level 1 Tier 1 capital base. At present, only covered bonds meet APRA's criteria for contingent funding.

In July 2018, APRA released a consultation paper and draft prudential standards on proposed revisions to APS 222, which also incorporated changes to its large exposures framework finalized and published in December 2017. APRA's proposals include revisions to the prudential limits on exposures to related entities. APRA is proposing to align the capital base used in limit calculations to Level 1 Tier 1 Capital (capital base used in the revised large exposures framework) and to reduce the individual and aggregate limits of exposures to related ADIs.

APRA is currently consulting on the proposed changes, taking into account submissions already received from the ANZBGL and the industry. The impact on the ANZ Group (including ANZ New Zealand) arising from the above consultation will not be known until APRA finalizes its review. APRA intends to have the revised APS 222 framework implemented by January 1, 2020.

Effect of the Level 3 framework

Under APRA's Level 3 Conglomerates regulations, all ANZ Group entities must limit their financial and operational exposures to other entities in the ANZ Group (including ANZ New Zealand). These requirements are not expected to place additional restrictions on ANZBGL's ability to provide financial or operational support to ANZ New Zealand.

Other APRA powers

ANZBGL 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 will 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 ANZ New Zealand Group.

Australian Crisis Management

On March 5, 2018, the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018 of the Commonwealth of Australia (the "**Crisis Management Act**") came into effect. The Crisis Management Act amends the Banking Act (among other statutes applicable to financial institutions in Australia) and is intended to enhance APRA's powers. Specifically, the Crisis Management Act enhances 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 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 ANZNIL); 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 settlement rules applicable to the instrument. In addition, the Banking Act includes a moratorium on the taking of certain actions on grounds relating to the operation of the Statutory Conversion and Write-Off Provisions.

Australian Banking Executive Accountability Regime ("BEAR")

On February 20, 2018 the Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018 of the Commonwealth of Australia came into effect. 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 ("accountable persons") 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 as accountable persons and has registered existing accountable persons with APRA. It has also provided APRA with a map of the roles and responsibilities of such persons across the ADI group, and has provided APRA with accountability statements for each accountable person, detailing that individual's role and responsibilities. ANZBGL is required to keep the map and accountability statements submitted to APRA up to date;

- where ANZBGL and its accountable persons do not meet accountability expectations, APRA is empowered to disqualify 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's remuneration policies for accountable persons must comply 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. APRA can exempt ADIs and accountable persons from BEAR obligations if complying with those would result in the contravention of the laws of another country.

Dodd-Frank

The Dodd-Frank Act affects 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, though the ongoing development and monitoring of required compliance programs may require the expenditure of resources and management attention.

Regulations under the Dodd-Frank Act impose minimum margin requirements on uncleared swaps, require the centralized execution and clearing of many categories of standardized OTC derivatives on regulated trading platforms and clearing houses and provide for the registration and heightened supervision of OTC derivatives dealers and major market participants. To date, the CFTC has implemented most of its rules for the regulation of the OTC swaps market, including rules concerning the registration of swap dealers, recordkeeping and reporting of swaps data, and the clearing and trading of most interest-rate swaps and certain categories of index credit default swaps. Because ANZBGL is a provisionally registered swap dealer under the CFTC regulations, the ANZ Group, including ANZ New Zealand and ANZNIL, is subject to these CFTC requirements as well as certain additional business conduct rules that apply to the ANZ Group's swap transactions with counterparties that are U.S. persons. It is possible that registration, execution, clearing and compliance requirements will increase the costs of and restrict participation in the derivative markets. These rules could therefore restrict trading activity, reducing trading opportunities and market liquidity, potentially increasing the cost of hedging transactions and the volatility of the relevant markets. This could adversely affect our business in these markets.

The CFTC has issued Cross-Border Guidance which, among other things, provides guidance as to the circumstances in which non-U.S. swap dealers, such as ANZBGL, will not be subject to the CFTC's rules when dealing outside the U.S. with non-U.S. counterparties. The Cross-Border Guidance establishes a framework for the CFTC to 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 made such a determination with respect to certain aspects of Australian law and regulation and ANZBGL is able to rely on substituted compliance with respect to certain aspects of CFTC rules in connection with transactions with non-U.S. counterparties. The CFTC may issue further guidance in the future that could expand or limit the existing substituted compliance regime. In particular, the CFTC has indicated that swap dealers will be required to comply, and has issued proposed rules that would require compliance, with the CFTC's rules, without substituted compliance, in connection with transactions between ANZBGL and a non-U.S. counterparty, if the transaction is "arranged, negotiated or executed" through personnel located in the U.S. It is unclear whether the CFTC will implement this requirement and whether (and the extent to which) it will affect the business of ANZ New Zealand.

U.S. prudential regulators and the CFTC have finalized and issued their respective rules imposing initial and variation margin requirements on transactions in uncleared swaps and security-based swaps. The requirement for swap dealers to collect and post variation margin with all counterparties became effective on March 1, 2017. The compliance date was effectively extended with respect to certain swap entities through guidance issued by the regulators, and compliance became mandatory for those swap entities on September 1, 2017. Initial margin requirements are being phased in over a period of time. There are exemptions from the margin requirements for transactions with non-financial end-user counterparties. The margin requirements can be expected to increase the costs of OTC derivative transactions and could adversely affect market liquidity.

The ANZ Group, including ANZ New Zealand and ANZNIL, is also subject to a provision of the Dodd-Frank Act that is commonly called the "Volcker Rule", which 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 banks' sponsorship of, and investment in, private equity funds and hedge funds, subject to certain exclusions and exemptions, including those listed above as well as exemptions applicable to certain transactions and investments occurring solely outside of the United States. The Federal Reserve Board on May 30, 2018 voted to release for public comment proposed revisions that are intended to streamline and simplify certain requirements of the Volcker Rule.

FATCA

FATCA imposes significant U.S. withholding taxes on non-U.S. financial institutions (such as ANZ New Zealand and many of its subsidiaries and affiliates) that fail to provide the IRS with information on certain non-U.S. accounts held by U.S. persons or, in some cases, held by non-U.S. entities with substantial U.S. owners. 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 the IGA between the United States and New Zealand as discussed below under "Taxes". 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. Further, it is also possible that ANZ New Zealand and/or ANZNIL may be required to make gross-up payments to others in respect of FATCA withholding under existing or future transaction documentation.

Conditions of registration for ANZ Bank New Zealand Limited

These conditions apply on and after 1 October 2018**.** 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,—

   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.

   "Total capital ratio", "Tier 1 capital ratio", "Common Equity Tier 1 capital ratio", and "Total capital" must be calculated in accordance with 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 banking group complies with all requirements set out in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015**.**

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.

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 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:

   (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.

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.

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 65%, 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 15% 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 2018:
"loan-to-valuation measurement period" means—

(a) the three calendar month period ending on the last day of March 2018; 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 2018.

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.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Prospective investors should read the following discussion of our financial condition and results of operations together with our financial statements and the notes to such financial statements, included in this Offering Memorandum. The presentation in this section contains forward looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward looking statements as a result of a number of factors, including, but not limited to, those set forth under the caption "Risk Factors" and elsewhere in this Offering Memorandum.

The following discussion is based on the ANZ New Zealand Financial Statements, which have been prepared in accordance with NZ IFRS, which differs from U.S. GAAP in certain significant respects.

Because ANZNIL's operations consist of providing funding to the ANZ New Zealand Group and because ANZ New Zealand provides the Guarantee with respect to the ANZNIL Notes, we do not believe that a discussion of ANZNIL's financial condition and results of operations would be meaningful to investors. However, the ANZNIL Financial Statements are attached to this Offering Memorandum as Annex A-1. The ANZNIL Financial Statements have not been prepared in accordance with IFRS as adopted by the EU.

Overview

ANZ New Zealand is a leading New Zealand bank serving over 2 million customers in New Zealand. We are a wholly owned subsidiary of ANZBGL and a member of the ANZ Group, managed by our Board and CEO in compliance with the requirements and regulations of our primary regulator, the RBNZ.

Our business is organized into the following three major business segments: (1) Retail (including the personal and Business Banking businesses and Wealth), (2) Commercial (including the CommAgri business and UDC) and (3) Institutional. These segments are supported by centralized back office and corporate functions.

We face substantial competition in New Zealand. Competition affects our profitability in terms of reduced interest rate spreads, the volume of new lending and income. See "Overview—ANZ New Zealand organizational structure—Competition" and "Risk Factors" in this Offering Memorandum.

Critical accounting policies

Critical accounting policies under NZ IFRS

The ANZ New Zealand Financial Statements are prepared in accordance with the New Zealand Financial Markets Conduct Act 2013. In addition, the ultimate parent company, ANZBGL, defines accounting policy for the ANZ Group. However, notwithstanding the existence of relevant accounting standards, there are a number of critical accounting treatments, which include complex or subjective decisions or assessments. All material changes to accounting policy are approved by the ANZ New Zealand Group's Audit Committee and ANZBGL's Audit Committee. A brief discussion of critical accounting policies applicable as at September 30, 2018 and September 30, 2017, and their impact on us follows.

See Note 1 to the 2018 ANZ New Zealand Financial Statements and the 2017 ANZ New Zealand Financial Statements (included as part of Annex A to this Offering Memorandum) for the critical accounting policies under NZ IFRS as at September 30, 2018 and September 30, 2017.

Credit provisioning

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

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

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

Individual and collective provisioning involves the use of assumptions for estimating the amounts and timing of expected future cash flows. The process of estimating the amount and timing of cash flows involves considerable management judgment. These judgments are revised regularly to reduce any differences between loss estimates and actual loss experience.

Derivatives and hedging

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

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

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

The majority of outstanding derivative positions are transacted over-the-counter and therefore need to be valued using valuation techniques. Included in the determination of the fair value of derivatives is a credit valuation adjustment ("**CVA**") to reflect the creditworthiness of the counterparty. This is influenced by the mark-to-market of the derivative trades and by the movement in the market cost of credit. Further adjustments are made to account for the funding costs inherent in the derivative. Judgment is required to determine the appropriate cost of funding and the future expected cash flows used in this funding valuation adjustment ("**FVA**").

Goodwill

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

Goodwill has been allocated for impairment purposes to the cash generating units at which the goodwill is monitored for internal reporting purposes. Impairment testing of purchased goodwill is performed by comparing the recoverable value of each cash-generating unit with the current carrying amount of its net assets, including goodwill. Judgment is required in identifying the cash-generating units to which goodwill and other assets are allocated for the purpose of impairment testing.

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

These cash flow projections are discounted using a capital asset pricing model. As at February 28, 2018, when the last valuation was prepared, a discount rate of 11.4% 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 the 10 year New Zealand Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each segment.

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

As at September 30, 2018, the balance of goodwill recorded as an asset on our consolidated balance sheet as a result of acquisitions was $3,230 million (including $101 million allocated to OnePath Life NZ assets held for sale) ($3,230 million as at September 30, 2017).

Software

During the financial year ended September 30, 2016, ANZ New Zealand Group changed the application of its accounting policy for the capitalization of expenditure on internally generated software assets effective from

October 1, 2015. The change aligns the accounting policy for software assets with the rapidly changing technology landscape and ANZ New Zealand Group's evolving digital strategy by increasing the threshold for capitalization of software development costs and directly expensing more project related costs. The change does not affect ANZ New Zealand Group's total investment in technology but does affect the timing of recognition of costs in the income statement. The impact of the change on the results for the financial year ended September 30, 2016 was:

- higher amortization of $54 million relating to the accelerated amortization of software assets where the original cost was below the revised threshold at October 1, 2015. This brought forward amortization that otherwise would have been recognized in future periods; and

- higher operating expenses of $56 million relating to software development costs which otherwise would have been capitalized and amortized in future periods.

The September 2016 year included a $73 million charge associated with changes in the application of the accounting policy for internally generated software assets which was not repeated in the September 2017 year.

Results of operations

Financial year ended September 2018 compared with financial year ended September 2017 (consolidated results)

On November 16, 2018, we issued our audited financial statements for the financial year ended September 30, 2018, which are included in the ANZ New Zealand Financial Statements attached to this Offering Memorandum as Annex A.

The table below sets forth our results for the financial years ended September 30, 2018, 2017 and 2016.

Summary Income Statement

		Financial year ended September 30,		
NZ$ millions, unless otherwise stated	**2018 US$ millions**[1]	**2018**[2]	2017[2]	2016[2]
Interest income	**4,240**	**6,390**	6,198	6,423
Interest expense	**2,150**	**3,240**	3,161	3,421
Net interest income	**2,090**	**3,150**	3,037	3,002
Other operating income	**747**	**1,126**	938	852
Net operating income	**2,837**	**4,276**	3,975	3,854
Operating expenses	**1,007**	**1,517**	1,468	1,599
Profit before credit impairment and income tax	**1,831**	**2,759**	2,507	2,255
Credit impairment charge	**36**	**55**	62	150
Profit before income tax	**1,794**	**2,704**	2,445	2,105
Income tax expense	**498**	**751**	680	570
Profit after income tax	**1,296**	**1,953**	1,765	1,535

(1) For the convenience of the reader, the financial data for the financial year ended September 30, 2018 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 28, 2018 of NZ$1.00=US$0.6635.

(2) Source: ANZ New Zealand Financial Statements.

Profit after income tax for 2018 compared to 2017 increased 11%, or $188 million, to $1,953 million.

Net interest income increased $113 million, or 4% from $3,037 million in 2017 to $3,150 million in 2018. The increase reflects lending and deposit volume growth. The net interest margin decreased 1 basis point in a competitive environment driven by a lower yield on interest earning assets partly offset by lower funding costs. Period end lending volumes (including assets held for sale) increased 5% in 2018, mainly reflecting growth in housing lending. Customer deposits increased 7% in 2018.

Other operating income increased $188 million, or 20% from $938 million in 2017 to $1,126 million in 2018. The main factors contributing to this increase include:

- Increase in the mark-to–market value of economic hedge derivatives. Fair value gains of $66 million were recorded in 2018, compared to fair value losses of $59 million in 2017.

- Gains 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 $21 million in 2018 compared to a negative revaluation of $36 million in 2017.

- Funds management and insurance income increased $19 million in 2018, driven by growth in funds under management and favorable market conditions.

- Other operating income in the markets business decreased by $37 million in 2018, driven by fair value losses due to movements in credit spreads and losses on derivative valuation adjustments.

- Increases 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.

Operating expenses increased $49 million, or 3%, from $1,468 million in 2017 to $1,517 million in 2018, driven by inflation, investment impacts relating to compliance and core infrastructure projects and restructuring and remediation costs, partly offset by productivity gains.

The credit impairment charge decreased $7 million from a $62 million charge in 2017 to a $55 million charge in 2018. The individual provision charge decreased $6 million from a $106 million charge in 2017 to a $100 million charge in 2018, primarily due to lower levels of new provisions raised, partly offset by lower write-backs. The collective provision release was $1 million lower from a $44 million release in 2017 compared to a $45 million release in 2018 due to credit quality improvements and an economic cycle adjustment.

Net interest income

The following table shows our net interest income for the financial years ended September 30, 2018 and 2017.

	Financial year ended September 30	
NZ$ millions	**2018**	2017
Interest income	**6,390**	6,198
Interest expense	**3,240**	3,161
Net interest income	**3,150**	3,037

Net interest income totaled $3,150 million in 2018, an increase of 4%, or $113 million, over 2017. Average volume growth contributed an increase of $119 million and lower net interest margin contributed a $6 million decrease to net interest income. Key influences on the result are discussed below.

***Movements in average margin*[1]**

The overall interest spread increased from 1.82% in 2017 to 1.83% in 2018, with the yield on total average interest earning assets decreasing 4 basis points, and the yield paid on total average interest bearing liabilities decreasing 5 basis points. Key influences on the result include the following:

- The average yield on net loans and advances decreased 2 basis points from 4.80% in 2017 to 4.78% in 2018, primarily due to repricing and change in mix of the portfolio.

- The average yield on commercial paper, deposits and other borrowings increased 1 basis point from 2.36% in 2017 to 2.37% in 2018 and the average yield on unsubordinated debt decreased 23 basis points from 3.57% in 2017 to 3.34% in 2018, primarily due to a continued low interest rate environment.

- The average yield on trading securities decreased 50 basis points from 3.36% in 2017 to 2.86% in 2018, primarily due to disposal and maturity of 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" on page 82 of this Offering Memorandum. Unless otherwise stated, the methodology for calculating average balances is included in that table.*

Movements in average volume[1]

- Average interest earning assets increased $5,689 million, or 4%, in 2018 compared to 2017. This increase was mainly in average net loans and advances which increased $5,522 million, or 5%, during 2018. This primarily reflected growth in the housing lending market.

- Average interest bearing liabilities increased $4,926 million during 2018, primarily due to increased commercial paper, deposits and other borrowings.

- Average commercial paper, deposits and other borrowings increased $3,158 million. This growth was driven by an increase of $4,384 million in average customer deposits partly offset by a reduction in average commercial paper issued of $1,226 million.

Average unsubordinated debt and subordinated debt increased $1,453 million during 2018 due to new issuances and foreign exchange impacts offset by maturities.

Other operating income

The following table shows our other operating income for the financial years ended September 30, 2018 and 2017.

	Financial year ended September 30	
NZ$ millions	**2018**	2017
Net fee and commission income	**394**	409
Net funds management and insurance income	**405**	329
Net foreign exchange earnings and other financial instruments income	**237**	129
Derivative valuation adjustments	**13**	33
Share of associates' profit	**5**	5
Other income	**72**	33
Other operating income	**1,126**	938

Other operating income totaled $1,126 million in 2018, an increase of $188 million, or 20%, over 2017. Key influences on the result include the following:

- Net funds management and insurance income increased $76 million, or 23%. This was driven by higher funds management income, which increased $18 million driven by growth in net inflow from investors and favorable market performance, an increase in insurance income of $1 million and volatility in long term interest rates used to discount future cash flows resulting in a positive revaluation of net insurance policy assets of $21 million in 2018 compared to a negative revaluation of $36 million in 2017.

- Net foreign exchange earnings and other financial instruments income increased $108 million in 2018 compared to 2017.

- Increases 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.

- Net fee and commission income decreased $15 million in 2018 compared to 2017 primarily due to fee reductions and fee removal.

Operating expenses

The following table shows our operating expenses for the financial years ended September 30, 2018 and 2017.

	Financial year ended September 30	
NZ$ millions	**2018**	2017
Personnel costs	**891**	856
Premises costs	**153**	153
Technology costs	**225**	218
Other costs	**248**	241
Operating expenses	**1,517**	1,468

Operating expenses totaled $1,517 million in 2018, an increase of $49 million, or 3%, over 2017. The key influences on the result include the following:

- Personnel costs increased $35 million, or 4%, due to inflation, restructuring and remediation impacts partly offset by productivity gains due to a reduction in full-time equivalent employees from simplifying the business.

- Technology costs increased $7 million, or 3%, in 2018, driven by increases in project costs relating to investment in technology and business simplification.

- Other costs increased $7 million, or 3%, due to higher head office charges relating to projects costs.

Credit impairment charge

Credit impairment charge totaled $55 million for 2018, a decrease of $7 million compared to 2017.

- The individual provision charge was $6 million lower, due to lower levels of new provisions raised partly offset by lower write-backs.

- The collective provision release was $1 million lower due to credit quality improvements and an economic cycle adjustment.

Summary Balance Sheet

NZ$ millions (unless otherwise stated)	2018[1] US$ millions	2018	As at September 30, 2017	2016
Assets				
Cash and cash equivalents	**1,460**	**2,200**	2,338	2,274
Settlement balances receivable	**435**	**656**	536	396
Collateral paid	**1,273**	**1,919**	1,415	2,310
Trading securities	**5,324**	**8,024**	7,663	11,979
Derivative financial instruments	**5,365**	**8,086**	9,878	21,110
Available-for-sale assets	**4,314**	**6,502**	6,360	2,859
Net loans and advances	**83,910**	**126,466**	117,627	114,623
Assets held for sale	**595**	**897**	3,065	-
Life insurance contract assets	**-**	**-**	636	630
Investment in associates	**4**	**6**	7	7
Goodwill and other intangibles	**2,182**	**3,289**	3,275	3,424
Investments backing insurance contract liabilities	**-**	**-**	123	119
Premises and equipment	**216**	**325**	367	387
Other assets	**427**	**642**	683	701
Total assets	**105,505**	**159,012**	153,973	160,819
Liabilities				
Settlement balances payable	**1,434**	**2,161**	1,840	1,771
Collateral received	**561**	**845**	613	529
Deposits and other borrowings	**71,663**	**108,008**	101,657	99,066
Derivative financial instruments	**5,371**	**8,095**	9,826	21,956
Current tax liability	**107**	**161**	39	21
Deferred tax liabilities	**14**	**21**	187	145
Liabilities held for sale	**222**	**334**	1,088	-
Payables and other liabilities	**628**	**947**	1,151	1,119
Employee entitlements and other provisions	**130**	**196**	185	206
Unsubordinated debt	**15,059**	**22,696**	21,323	20,014
Subordinated debt	**1,618**	**2,439**	3,283	3,282
Total liabilities	**96,807**	**145,903**	141,192	148,109
Total equity	**8,698**	**13,109**	12,781	12,710

(1) For the convenience of the reader, the financial data for the financial year ended September 30, 2018 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 28, 2018 of NZ$1.00=US$0.6635.

Other Banking Data

	RBNZ Minimum	As at September 30, 2018	2017
Capital adequacy ratios			
Common Equity Tier 1 capital (%)	**4.5**	**11.1**	10.7
Tier 1 capital (%)	**6.0**	**14.4**	14.1
Total capital (%)	**8.0**	**14.4**	14.4
Risk-weighted exposures (NZ$ millions) [1]		**82,147**	81,642

(1) Total of the carrying value of each asset class multiplied by their assigned risk weighting, as defined by the RBNZ.

Total assets increased $5,039 million, from $153,973 million as at September 30, 2017, to $159,012 million as at September 30, 2018. Key influences on the movement in assets include:

- Assets held for liquidity purposes comprise cash and cash equivalents, settlement balances receivable, trading securities, and available-for-sale assets. These assets in aggregate increased $485 million ($17,382 million as at September 30, 2018, from $16,897 million as at September 30, 2017). The increase in assets held for liquidity purposes is reflective of overall liquidity management activities.

- Derivative financial instruments assets decreased $1,792 million due to a decrease in revaluation gains as interest rate contracts revalued to lower unrealised gains.

- Net loans and advances increased $5,927 million, or 5%, as at September 30, 2018 (including UDC net loans and advances held for sale of $2,912 million as at September 30, 2017). Gross loans and advances increased $5,860 million, with $5,871 million of this being housing loans. The credit impairment balance decreased $67 million to $512 million as at September 30, 2018, which is netted against gross loans and advances.

Total liabilities increased $4,711 million, from $141,192 million as at September 30, 2017, to $145,903 million as at September 30, 2018. Key influences on the movement in liabilities include:

- Total deposits and other borrowings increased $5,312 million, or 5%, as at September 30, 2018, (including UDC customer deposits held for sale of $1,039 million as at September 30, 2017). Customer deposits increased $7,226 million, or 7%, reflecting the focus on deposit gathering to fund growth in lending.

- Unsubordinated debt increased $1,373 million during 2018. The increase reflects new issuances of $3,385 million, a positive exchange rate impact of $1,133 million, and maturities of $3,145 million.

- Derivative financial instruments liabilities decreased $1,731 million due to a decrease in revaluation losses as interest rate contracts revalued to lower unrealised losses.

Financial year ended September 2018 compared with financial year ended September 2017 (results by segment).

The following segments were reported principally based on major customer groups:

- Retail

- Commercial

- Institutional

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

The following table shows the results of our business segments for the financial years ended September 30, 2018, 2017 and 2016:

	Financial year ended September 30,		
NZ$ millions	**2018**	2017	2016
Retail	**992**	977	903
Commercial	**557**	439	413
Institutional	**261**	361	201
Other	**143**	(12)	18
Profit after income tax	**1,953**	1,765	1,535

The following table shows the results of our Retail segment (which includes the personal and Business Banking businesses and Wealth) for the financial years ended September 30, 2018 and 2017:

Retail

NZ$ millions	Financial year ended September 30, 2018	2017
Net interest income	**1,777**	1,703
Other operating income	**685**	693
Net operating income	**2,462**	2,396
Operating expenses	**1,036**	1,005
Profit before credit impairment and income tax	**1,426**	1,391
Credit impairment charge	**50**	35
Profit before income tax	**1,376**	1,356
Income tax expense	**384**	379
Profit after income tax	**992**	977
Loans and advances	**76,843**	71,942
Deposits	**70,259**	67,796

Retail profit after income tax of $992 million in 2018 increased $15 million, or 2%, compared to 2017.

- Net interest income increased 4%, mainly due to lending and deposit volume growth. Net interest margin was unchanged year on year.
- Other operating income decreased $8 million primarily due to the reduction and removal of fees.
- Operating expenses were 3% higher, driven by inflation and restructuring costs partly offset by productivity gains.
- The credit impairment charge increased $15 million primarily due to a collective provision release in 2017 not repeated in 2018.
- Loans and advances increased $4,901 million, or 7%, as at September 30, 2018 compared to September 30, 2017, primarily due to housing loan growth and a net $2,127 million transfer of mortgages from the New Zealand branch of ANZBGL. Deposit volumes grew by $2,463 million, or 4%, as at September 30, 2018 compared to September 30, 2017 due to a focus on deposit gathering to fund growth in lending. Decreases in lending and deposits include transfers to Commercial in 2018 relating to Agri customers.

Commercial

NZ$ millions	Financial year ended September 30, 2018	2017
Net interest income	**970**	900
Other operating income	**21**	21
Net operating income	**991**	921
Operating expenses	**258**	259
Profit before credit impairment and income tax	**733**	662
Credit impairment (release) / charge	**(41)**	51
Profit before income tax	**774**	611
Income tax expense	**217**	172
Profit after income tax	**557**	439
Loans and advances	**42,446**	40,963
Deposits	**16,842**	14,058

The Commercial segment includes the CommAgri business and UDC.

Commercial profit after income tax of $557 million increased $118 million, or 27%, in 2018 compared to 2017.

- Net interest income increased $70 million, or 8%, in 2018 compared to 2017. This reflected the positive impact from lending and deposit volume growth and repricing the book.

- Operating expenses were $1 million lower in 2018 compared to 2017 with productivity improvements partly offsetting inflationary impacts.

- The credit impairment charge decreased $92 million in 2018. The individual provision charge was $75 million lower in 2018 compared to 2017 due to a higher level of write-backs and lower levels of new provisions raised. The collective provision release was $17 million lower in 2018 compared to 2017 due to credit quality improvements and an economic cycle adjustment.

- Loans and advances increased $1,482 million, or 4%, in 2018 compared to 2017. Deposit volumes increased $2,783 million, or 20%, in 2018 compared to 2017. Increases in lending and deposits include balances transferred from Retail in 2018 relating to Agri customers.

Institutional

	Financial year ended September 30,	
NZ$ millions	**2018**	2017
Net interest income	**325**	360
Other operating income	**265**	302
Net operating income	**590**	662
Operating expenses	**182**	184
Profit before credit impairment and income tax	**408**	478
Credit impairment charge / (release)	**46**	(24)
Profit before income tax	**362**	502
Income tax expense	**101**	141
Profit after income tax	**261**	361
Loans and advances	**7,166**	7,590
Deposits	**16,954**	14,973

Institutional profit after income tax of $261 million in 2018 year decreased $100 million, or 28%, compared to 2017.

- Net operating income decreased $72 million, or 11%, mainly due to unfavorable movements in credit spreads and gains on derivative valuation adjustments.

- Operating expenses were 1% lower with productivity improvements partly offsetting inflationary impacts.

- The credit impairment charge increased $70 million in 2018 compared to 2017 driven by specific customer provisions raised in 2018 and provision releases in 2017 not repeated in 2018.

Other

	Financial year ended September 30,	
NZ$ millions	**2018**	2017
Profit before tax	**192**	(24)
Income tax expense	**49**	(12)
Profit after income tax	**143**	(12)

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 result in 2018 reflected the following:

- Increase in the mark-to–market value of economic hedge derivatives. Fair value gains of $66 million were recorded in 2018, compared to fair value losses of $59 million in 2017.

- Gains 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 $21 million in 2018 compared to a negative revaluation of $36 million in 2017.

- Increases 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.

Financial year ended September 2017 compared with financial year ended September 2016 (consolidated results)

On November 16, 2017, we issued our audited financial statements for the financial year ended September 30, 2017, which are included in the ANZ New Zealand Financial Statements attached to this Offering Memorandum as Annex A.

The table below sets forth our results for the financial years ended September 30, 2017 and 2016.

Summary Income Statement

NZ$ millions (unless otherwise stated)	Financial year ended September 30,		
	2017 US$ millions[1]	**2017**[2]	2016[2]
Interest income	**4,478**	**6,198**	6,423
Interest expense	**2,284**	**3,161**	3,421
Net interest income	**2,194**	**3,037**	3,002
Other operating income	**678**	**938**	852
Net operating income	**2,872**	**3,975**	3,854
Operating expenses	**1,061**	**1,468**	1,599
Profit before credit impairment and income tax	**1,811**	**2,507**	2,255
Credit impairment charge	**45**	**62**	150
Profit before income tax	**1,767**	**2,445**	2,105
Income tax expense	**491**	**680**	570
Profit after income tax	**1,275**	**1,765**	1,535

(1) For the convenience of the reader, the financial data for the financial year ended September 30, 2017 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 29, 2017 of NZ$1.00=US$0.7225.

(2) Source: ANZ New Zealand Financial Statements.

Profit after income tax for 2017 compared to 2016 increased 15%, or $230 million, to $1,765 million.

Net interest income increased 1% from $3,002 million in 2016 to $3,037 million in 2017. The increase reflects lending volume growth partly offset by a contraction in net interest margin of 7 basis points in a competitive environment. The decline in net interest margin was driven by an increase in the proportion of period end fixed rate lending, which attracts lower margins than variable rate lending, to 71% for 2017 compared to 69% for 2016. Period end lending volumes (including UDC assets held for sale) increased 5% in 2017, mainly reflecting growth in housing lending. Customer deposits increased 6% in 2017.

Other operating income increased 10% from $852 million in 2016 to $938 million in 2017. The main factors contributing to this increase include:

- Funds management and insurance income increased $11 million in 2017, driven by growth in funds under management and favorable market conditions.

- Losses on life insurance contract assets due to movements in long term interest rates used to discount future cash flows resulting in a negative revaluation of net insurance policy assets of $36 million in 2017 compared to a positive revaluation of $60 million in 2016.

- Decrease in the mark-to–market value of economic hedge derivatives. Fair value losses of $59 million were recorded in 2017, compared to fair value losses of $40 million in 2016.

- Other operating income in the core markets and balance sheet trading businesses increased by $152 million in 2017, driven by fair value gains due to movements in credit spreads and gains on derivative valuation adjustments.

- A negative derivative valuation adjustment of $43 million in 2016 was not repeated in 2017.

Operating expenses decreased $131 million, or 8%, from $1,599 million in 2016 to $1,468 million in 2017, driven by a $73 million charge associated with changes in the application of the accounting policy for internally generated software assets in 2016 not being repeated in 2017, a decrease of $20 million in restructuring costs and productivity gains that more than offset inflationary and investment impacts.

The credit impairment charge decreased $88 million from a $150 million charge in 2016 to a $62 million charge in 2017. The individual provision charge decreased $30 million from a $136 million charge in 2016 to a $106 million charge in 2017, due to a higher level of write-backs and lower levels of new provisions raised. The collective provision was $58 million lower in 2017 compared to 2016 driven by specific customer movements in the CommAgri business due to transfers to impaired assets and customer upgrades across a number of sectors. These were partly offset by customer downgrades.

Net interest income

The following table shows our net interest income for the financial years ended September 30, 2017 and 2016.

	Financial year ended September 30,	
NZ$ millions	**2017**	2016
Interest income	**6,198**	6,423
Interest expense	**3,161**	3,421
Net interest income	**3,037**	3,002

Net interest income totaled $3,037 million in 2017, an increase of $35 million, or 1%, over 2016. Average volume growth contributed a $132 million increase and lower net interest margin contributed a $97 million decrease to net interest income. Key influences on the result are discussed below:

Movements in average margin[1]

The overall interest spread decreased 6 basis points from 1.88% in 2016 to 1.82% in 2017, with the yield on total average interest earning assets decreasing 39 basis points, and the yield paid on total average interest bearing liabilities decreasing 33 basis points. Key influences on the result include the following:

- The average yield on net loans and advances decreased 42 basis points from 5.22% in 2016 to 4.80% in 2017 due to continuing customer preference for fixed rate lending.

- The average yield on commercial paper, deposits and other borrowings decreased 43 basis points from 2.79% in 2016 to 2.36% in 2017 and the average yield on unsubordinated debt decreased 22 basis points from 3.79% in 2016 to 3.57% in 2017, primarily due to a low interest rate environment.

- The average yield on trading securities decreased 30 basis points from 3.66% in 2016 to 3.36% in 2017, due to disposal and maturity of higher yielding assets being replaced by lower earning short term securities.

Movements in average volume[1]

- Average interest earning assets increased $6,166 million, or 5%, in 2017 compared to 2016. This increase was mainly in average net loans and advances which increased $6,815 million, or 6%, during 2017. This reflected growth in the housing lending market and growth in the Commercial segment.

- Average commercial paper, deposits and other borrowings increased $2,992 million. This growth was driven by an increase of $4,980 million in average customer deposits partly offset by a reduction in average commercial paper issued of $1,940 million.

- Average unsubordinated debt and subordinated debt increased $2,421 million during 2017 due to new issuances and foreign exchange impacts offset by maturities.

- Average interest bearing liabilities increased $4,477 million during 2017, primarily due to increased commercial paper, deposits and other borrowings.

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(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" on page 82 of this Offering Memorandum. Unless otherwise stated, the methodology for calculating average balances is included in that table.*

Other operating income

The following table shows our other operating income for the financial years ended September 30, 2017 and 2016.

	Financial year ended September 30,	
NZ$ millions	**2017**	2016
Net fee income	**409**	422
Funds management and insurance income	**329**	414
Net gain on foreign exchange trading	**176**	203
Net gain / (loss) on trading securities and derivatives	**50**	(191)
Share of associates' profit	**5**	5
Other income	**(31)**	(1)
Other operating income	**938**	852

Other operating income totaled $938 million in 2017, an increase of 10%, or $86 million, over 2016. Key influences on the result include the following:

- Funds management and insurance income decreased $85 million, or 21%. This was driven by: higher funds management income which increased $12 million driven by growth in net inflow from investors and favorable market performance, partially offset by a decrease in insurance income of $1 million; and volatility in long term interest rates used to discount future cash flows resulting in a negative revaluation of net insurance policy assets of $36 million in 2017 compared to a positive revaluation of $60 million in 2016.

- The aggregate of net foreign exchange trading gains and gains on trading securities increased $214 million in 2017 compared to 2016. This reflects gains due to movements in credit spreads and gains on derivative valuation adjustments.

- Other income decreased $30 million in 2017 compared to 2016 primarily due to volatility in the mark-to-market of economic hedge derivatives. Fair value losses of $64 million were recorded in 2017, compared to fair value losses of $40 million in 2016.

Operating expenses

The following table shows our operating expenses for the financial years ended September 30, 2017 and 2016.

	Financial year ended September 30,	
NZ$ millions	**2017**	2016
Personnel costs	**856**	894
Premises costs	**153**	152
Technology costs	**218**	285
Other costs	**241**	268
Operating expenses	**1,468**	1,599

Operating expenses totaled $1,468 million in 2017, a decrease of 8%, or $131 million, over 2016. The key influences on the result include the following:

- Personnel costs, which decreased 4%, or $38 million. An increase in costs due to inflation was more than offset by productivity gains due to a reduction in full-time equivalent employees from simplifying the business.

- Technology costs decreased 24%, or $67 million in 2017, driven by the charge of $73 million associated with changes in the application of the accounting policy for internally generated software assets in 2016 not being repeated in 2017, partially offset by increases in project costs relating to investment in technology and business simplification.

- Other costs decreased 10%, or $27 million due to lower discretionary spending.

Credit impairment charge

Credit impairment charge totaled $62 million for 2017, a decrease of $88 million compared to 2016.

- The individual provision charge was $30 million lower, due to a higher level of write-backs and lower levels of new provisions raised.
- The collective provision was $58 million lower driven by specific customer movements in the CommAgri business, due to transfers to impaired assets and customer upgrades across a number of sectors. These were partly offset by customer downgrades.

Summary Balance Sheet

NZ$ millions (unless otherwise stated)	2017[1] US$ millions	As at September 30, 2017	2016
Assets			
Cash	**1,689**	**2,338**	2,274
Settlement balances receivable	**387**	**536**	396
Collateral paid	**1,022**	**1,415**	2,310
Trading securities	**5,537**	**7,663**	11,979
Investments backing insurance contract liabilities	**89**	**123**	119
Derivative financial instruments	**7,137**	**9,878**	21,110
Available-for-sale assets	**4,595**	**6,360**	2,859
Net loans and advances	**84,986**	**117,627**	114,623
UDC assets held for sale	**2,214**	**3,065**	-
Other assets	**493**	**683**	701
Insurance contract assets	**460**	**636**	630
Investment in associates	**5**	**7**	7
Premises and equipment	**265**	**367**	387
Goodwill and other intangibles	**2,366**	**3,275**	3,424
Total assets	**111,245**	**153,973**	160,819
Liabilities			
Settlement balances payable	**1,329**	**1,840**	1,771
Collateral received	**443**	**613**	529
Deposits and other borrowings	**73,447**	**101,657**	99,066
Derivative financial instruments	**7,099**	**9,826**	21,956
Current tax liability	**28**	**39**	21
Deferred tax liabilities	**135**	**187**	145
UDC liabilities held for sale	**786**	**1,088**	-
Payables and other liabilities	**832**	**1,151**	1,119
Employee entitlements and other provisions	**134**	**185**	206
Unsubordinated debt	**15,406**	**21,323**	20,014
Subordinated debt	**2,372**	**3,283**	3,282
Total liabilities	**102,011**	**141,192**	148,109
Total equity	**9,234**	**12,781**	12,710

(1) For the convenience of the reader, the financial data for the financial year ended September 30, 2017 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 29, 2017 of NZ$1.00=US$0.7225.

Other Banking Data

	RBNZ Minimum	As at September, 30 2017	2016
Capital adequacy ratios			
Common Equity Tier 1 capital (%)	**4.5**	**10.7**	10.0
Tier 1 capital (%)	**6.0**	**14.1**	13.2
Total capital (%)	**8.0**	**14.4**	13.7
Risk-weighted exposures (NZ$ millions) [1]		**81,642**	87,119

(1) Total of the carrying value of each asset class multiplied by their assigned risk weighting, as defined by the RBNZ.

Total assets decreased $6,846 million, from $160,819 million as at September 30, 2016, to $153,973 million as at September 30, 2017. Key influences on the movement in assets include:

- Assets held for liquidity purposes comprise cash, settlement balances receivable, trading securities, and available-for-sale assets. These assets in aggregate decreased $611 million ($16,897 million as at September 30, 2017, from $17,508 million as at September 30, 2016). The decrease in assets held for liquidity purposes is reflective of overall liquidity management activities.

- Derivative financial instruments assets decreased $11,232 million due to a decrease in revaluation gains as interest rate contracts revalued to lower unrealised gains.

- Net loans and advances (including UDC net loans and advances held for sale of $2,912 million as at September 30, 2017) increased $5,916 million, or 5%, as at September 30, 2017. Gross loans and advances increased $5,937 million, with $5,226 million of this being housing loans. The credit impairment charge decreased $43 million to $579 million as at September 30, 2017, which is netted against gross loans and advances.

Total liabilities decreased $6,917 million, from $148,109 million as at September 30, 2016, to $141,192 million as at September 30, 2017. Key influences on the movement in liabilities include:

- Total deposits and other borrowings (including UDC customer deposits held for sale of $1,039 million as at September 30, 2017) increased $3,630 million, or 4% as at September 30, 2017, compared to as at September 30, 2016. Customer deposits increased $5,469 million, or 6% reflecting the focus on deposit gathering to fund growth in lending.

- Unsubordinated debt increased $1,309 million during 2017. The increase reflects new issuances of $4,922 million, a positive exchange rate impact of $286 million, and maturities of $3,899 million.

- Derivative financial instruments liabilities decreased $12,130 million due to a decrease in revaluation losses as interest rate contracts revalued to lower unrealised losses.

Financial year ended September 2017 compared with financial year ended September 2016 (results by segment).

The following segments were reported principally based on major customer groups:

- Retail

- Commercial

- Institutional

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

The following table shows the results of our business segments for the financial years ended September 30, 2017 and 2016:

	Financial year ended September 30,	
NZ$ millions	**2017**	2016
Retail	**977**	903
Commercial	**439**	413
Institutional	**361**	201
Other	**(12)**	18
Profit after income tax	**1,765**	1,535

The following table shows the results of our Retail segment (which includes the personal and Business Banking businesses and Wealth) for the financial years ended September 30, 2017 and 2016:

Retail

NZ$ millions	Financial year ended September 30, 2017	2016
Net interest income	**1,703**	1,660
Other operating income	**693**	682
Net operating income	**2,396**	2,342
Operating expenses	**1,005**	1,045
Profit before credit impairment and income tax	**1,391**	1,297
Credit impairment charge	**35**	58
Profit before income tax	**1,356**	1,239
Income tax expense	**379**	336
Profit after income tax	**977**	903
Loans and advances	**71,942**	66,717
Deposits	**67,796**	63,110

Retail profit after income tax of $977 million for 2017 increased 8% compared to 2016.

- Net interest income increased 3%, mainly due to lending volume growth. Net interest margin contracted due to unfavorable lending and deposit mix as customers switched to lower margin fixed rate products.

- Other operating income increased $11 million, due to growth in funds under management.

- Operating expenses were 4% lower, primarily due to productivity improvements and lower discretionary spending.

- The credit impairment charge decreased $23 million due to LVR improvements in the housing loan portfolio.

- Loans and advances increased 8% as at September 30, 2017 compared to September 30, 2016, due to housing credit growth and a net $1.7 billion transfer of mortgages held in the New Zealand branch of ANZBGL to us. Deposit volumes grew by 7% as at September 30, 2017 compared to September 30, 2016, due to a focus on deposit gathering to fund growth in lending.

Commercial

NZ$ millions	Financial year ended September 30, 2017	2016
Net interest income	**900**	888
Other operating income	**21**	16
Net operating income	**921**	904
Operating expenses	**259**	258
Profit before credit impairment and income tax	**662**	646
Credit impairment charge	**51**	72
Profit before income tax	**611**	574
Income tax expense	**172**	161
Profit after income tax	**439**	413
Loans and advances	**40,963**	40,415
Deposits	**14,058**	13,251

The Commercial segment includes the CommAgri business and UDC.

Commercial profit after income tax of $439 million for 2017 increased 6% compared with 2016.

- Net interest income increased 1% in 2017 compared to 2016. This reflected the positive impact from lending and deposit volume growth.

- Operating expenses were $1 million higher in 2017 than 2016 with productivity improvements partly offsetting inflationary impacts.

- The credit impairment charge decreased $21 million in 2017, due to a collective provision release in 2017. This change was driven by a combination of transfers to impaired assets and customer upgrades across a number of sectors. It was partly offset by the individual provision charge for 2017 which was driven by new and increased provisions, partly offset by write-backs.

- Loans and advances increased 1% in 2017, with the main growth occurring in commercial lending. Deposit volumes increased 6% during 2017.

Institutional

	Financial year ended September 30,	
NZ$ millions	**2017**	2016
Net interest income	**360**	368
Other operating income	**302**	113
Net operating income	**662**	481
Operating expenses	**184**	181
Profit before credit impairment and income tax	**478**	300
Credit impairment charge	**(24)**	20
Profit before income tax	**502**	280
Income tax expense	**141**	79
Profit after income tax	**361**	201
Loans and advances	**7,590**	7,352
Deposits	**14,973**	15,010

Institutional profit after income tax of $361 million for 2017 year increased 80% compared with 2016.

- Net operating income increased 38% or $181 million, mainly due to favorable movements in credit spreads and gains on derivative valuation adjustments. Derivative valuation adjustments reflect the implementation of an updated derivative valuation methodology in 2016 that makes greater use of market credit information and more sophisticated exposure modelling and is in line with leading market practice.

- Operating expenses were 2% higher with productivity improvements partly offsetting inflationary impacts.

- The credit impairment charge decreased $44 million compared to 2016 driven by specific customer provisions raised in 2016 not being repeated in 2017.

Other

	Financial year ended September 30,	
NZ$ millions	**2017**	2016
Profit before tax	**(24)**	12
Income tax expense	**(12)**	(6)
Profit after income tax	**(12)**	18

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 pre-tax result in 2017 reflected the following:

- Decreases in the mark-to-market value of economic hedges derivatives. Fair value losses of $59 million were recorded in 2017, compared to fair value losses of $40 million in 2016.

- Losses on life insurance contract assets driven by volatility in long term interest rates used to discount future cash flows, resulting in a negative revaluation of net insurance policy assets of $36 million in 2017 compared to a positive revaluation of $60 million in 2016.

  The 2016 year included a $73 million charge associated with changes in the application of the accounting policy for internally generated software assets that was not repeated in 2017.

Average balance sheet and interest income/expense

The following table shows 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".

									Financial year ended September 30,
			2018			2017			2016
NZ$ millions (unless otherwise stated)	**Average balance**	**Interest**	**Average rate (%)**	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
Assets									
Interest earning assets									
Trading securities	**8,384**	**240**	**2.86**	10,450	351	3.36	12,378	453	3.66
Net loans and advances	**123,771**	**5,912**	**4.78**	118,249	5,675	4.80	111,434	5,813	5.22
Other interest earning financial assets	**11,142**	**238**	**2.14**	8,909	172	1.93	7,630	157	2.06
Total interest earning assets	**143,297**	**6,390**	**4.46**	137,608	6,198	4.50	131,442	6,423	4.89
Non-interest earning assets									
Provision for impairment	**(567)**	**-**	**-**	(611)	-	-	(605)	-	-
Property, plant and equipment	**354**	**-**	**-**	380	-	-	394	-	-
Other assets	**15,341**	**-**	**-**	20,752	-	-	24,950	-	-
Total non-interest earning assets	**15,128**	**-**	**-**	20,521	-	-	24,739	-	-
Total assets	**158,425**	**6,390**	**-**	158,129	6,198	-	156,181	6,423	-
Liabilities									
Interest bearing liabilities									
Commercial paper, deposits and other borrowings	**96,901**	**2,293**	**2.37**	93,743	2,212	2.36	90,751	2,536	2.79
Unsubordinated debt	**21,585**	**721**	**3.34**	19,747	704	3.57	17,977	681	3.79
Subordinated debt	**2,898**	**198**	**6.83**	3,283	220	6.70	2,632	170	6.46
Other interest bearing financial liabilities	**1,687**	**28**	**1.66**	1,372	25	1.82	2,308	34	1.47
Total interest bearing liabilities	**123,071**	**3,240**	**2.63**	118,145	3,161	2.68	113,668	3,421	3.01
Non-interest bearing liabilities									
Other liabilities	**22,168**	**-**	**-**	26,987	-	-	29,829	-	-
Total non-interest bearing liabilities	**22,168**	**-**	**-**	26,987	-	-	29,829	-	-
Total liabilities	**145,239**	**3,240**	**-**	145,132	3,161	-	143,497	3,421	-
Net assets	**13,186**	**3,150**	**-**	12,997	3,037	-	12,684	3,002	-

Volume and rate analysis

The following table attributes variances in our interest income and interest expense to changes in volume and rate for the financial year ended September 30, 2018, compared with the financial year ended September 30, 2017, and for the financial year ended September 30, 2017, compared with the financial year ended September 30, 2016. 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.

						Financial year ended September 30,
			2018 v. 2017			2017 v. 2016
			Increase / (Decrease) due to:			Increase / (Decrease) due to:
NZ$ millions	**Change in volume**	**Change in rate**	**Net change**	Change in volume	Change in rate	Net change
Interest earning assets						
Trading securities	**(69)**	**(42)**	**(111)**	15	(50)	(35)
Gross loans and advances	**266**	**(29)**	**237**	579	(1,043)	(464)
Other interest earning financial assets	**43**	**23**	**66**	58	(62)	(4)
Change in interest income	**240**	**(48)**	**192**	652	(1,155)	(503)
Interest bearing liabilities						
Commercial paper, deposits and other borrowings	**75**	**8**	**83**	294	(810)	(516)
Unsubordinated debt	**65**	**(48)**	**17**	2	(176)	(174)
Subordinated debt	**(26)**	**2**	**(24)**	53	5	58
Other interest bearing financial liabilities	**6**	**(3)**	**3**	11	(9)	2
Change in interest expense	**120**	**(41)**	**79**	360	(990)	(630)
Change in net interest income	**120**	**(7)**	**113**	292	(165)	127

Liquidity and funding

General

We are required to meet RBNZ liquidity requirements as defined in the Conditions of Registration sections 13 and 14. For further discussion of these requirements, see "Regulation and Supervision—Conditions of Registration for ANZ Bank New Zealand Limited". Also, as a material subsidiary of ANZBGL, we are 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. We strictly observe our prudential obligations in relation to liquidity and funding risk as required by RBNZ's Conditions of Registration and APRA.

Our liquidity policies are designed to ensure that we maintain sufficient cash balances and liquid asset holdings to meet our 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.

Our 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.

Our 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.

Conditions in the international debt markets have been fragile since 2007, with periods when short and/or long term funding markets have been virtually illiquid. Although these crises are unrelated to events in New Zealand, we have been exposed to them due to our requirement to fund regularly in the offshore market. While we have continued to fund in both short and long term markets at costs prevailing at the time, we have taken a number of actions to manage our short and long term funding risks effectively in this environment, including:

- increasing minimum holdings of liquid assets to improve our ability to manage periods of market illiquidity;
- establishing an "in-house" RMBS structure to generate securities that meet the RBNZ criteria for eligible collateral for repurchase transactions, which significantly increases our funding ability from the RBNZ. As at September 30, 2018, ANZ New Zealand held $14,044 million of bonds which could be used for repurchase transactions with the RBNZ generating $7,060 million of funding;
- the ANZ New Zealand Board approved the sale, from time-to-time, into the New Zealand branch of ANZBGL of up to $15 billion of residential mortgages. As at September 30, 2018, the New Zealand branch of ANZBGL held $2.2 billion of residential mortgages. To satisfy APRA's prudential requirements, we intend to repurchase these mortgages at approximately $1.6 billion per annum over the five year transition period ending December 31, 2020. For further discussion, see the section entitled "Regulation and Supervision—Restrictions on ANZBGL's ability to provide financial support to its New Zealand Operations—Effect of APRA's Prudential Standards";
- ensuring that the impact of increased funding costs is passed on to our businesses, which is reflected in pricing to customers;
- actively managing our maturity profile in line with our established policies and the RBNZ liquidity policy. For example the Core Funding Ratio (CFR) is derived from customer deposits, as determined by RBNZ, plus term debt with remaining life beyond 1 year divided by Total Loans and Advances. The RBNZ CFR minimum requirement is 75%; and
- increasing the covered bond program issuance limit to €8 billion from €5 billion in June 2016. The assets of the ANZNZ Covered Bond Trust, are made up of certain housing loans and related securities originated by ANZ Bank New Zealand Limited 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. Currently, ANZNIL has on issue covered bonds with a face value of €2,250 million. As at September 30, 2018, the ANZNZ Covered Bond Trust Limited held $10.7 billion of loans.

The following table sets forth an analysis of our contractual cash obligations in respect to subordinated and unsubordinated debt issuances as at September 30, 2018. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows and operating lease cash flows. As a result the amounts in the tables differ from those represented in the balance sheet.

				As at September 30, 2018
NZ$ millions	**Due within 1 year**	**Due between 1 and 5 years**	**Due beyond 5 years**	**Total**
Subordinated debt and unsubordinated debt	4,606	17,810	4,596	27,012
Lease rental commitments	86	224	115	425
Total contractual cash obligations	4,692	18,034	4,711	27,437

Our current borrowing programs as at September 30, 2018, other than borrowings from our parent, ANZBGL, are summarized in the table below. In addition to these programs, from time to time we issue 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]	Offshore non-US based	English
U.S. Commercial Paper Program - short term	US$10,000	US$1,647	ANZNIL[1]	Offshore US-based	New York
Domestic Term Note Program	NZ$5,000	NZ$4,225	ANZ New Zealand	On shore	New Zealand
Euro Medium-Term Note Program	US$10,000	US$3,047	ANZ New Zealand and ANZNIL[1]	Offshore non-US based	English
U.S. Medium-Term Note Program	US$10,000	US$6,750	ANZ New Zealand and ANZNIL[1]	Offshore US-based	New York
ANZNZ Covered Bond Program	€8,000	€2,250	ANZ New Zealand and ANZNIL[1, 2]	Offshore	English
Domestic Registered Certificate of Deposits Program	Unlimited	NZ$2,910	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 €2,250 million.

For an analysis of our borrowings by maturity, please see "Additional Financial and Statistical Information—Maturity distribution of borrowings" included elsewhere in this Offering Memorandum.

Our liquidity policies are adopted by ANZ New Zealand's Board to ensure that we have sufficient funds available to meet all our known and potential commitments and to meet our regulatory obligations.

Based on the level of resources within our businesses and our ability to access wholesale money markets and to issue debt securities should the need arise, we consider that our overall liquidity is sufficient to meet our current obligations to customers, policyholders and bondholders. Our business complies with the current liquidity requirements of the RBNZ.

Within our business, liquidity relates to our ability to make interest payments and to repay deposits. Our current policy is to ensure that liquid assets and funding capabilities are sufficient to meet expected cash flows under different scenarios. Our 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 our core long-term funding.

We also access the New Zealand and international debt capital markets under our various funding programs. As at September 30, 2018, we had on issue $25,135 million of term debt securities (bonds, notes and subordinated debt).

The cost and availability of our senior unsecured financing is influenced by credit ratings. As at December 4, 2018, credit ratings and outlook for our 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-1	A1	Stable
Fitch	F1+	AA-	Stable

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 our liquidity. We hold 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.

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 our funding capability from the RBNZ. It also resulted in ANZ New Zealand's financial statements recognizing a payable and receivable of equal amount totalling $9,482 million as at September 30, 2018, 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.

Sale of Residential Mortgage Assets

As at September 30, 2018, the New Zealand branch of ANZBGL held $2.2 billion of residential mortgage assets purchased from ANZ New Zealand. These assets qualify for derecognition as ANZ New Zealand does not retain a continuing involvement in the transferred assets.

Off-Balance Sheet Financial Instruments

By their nature, our activities are principally related to the use of financial instruments including derivatives. We accept 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. We seek 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.

We also seek 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; we also enter into guarantees and other commitments such as letters of credit and performance, and other, bonds.

We also trade in financial instruments where we take positions in traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in debt securities and in currency and interest rate prices. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Derivatives

Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading. The held for trading classification includes two categories of derivative instruments, those used in sales and market making activities (trading positions) and those used for our own risk management purposes that do not meet specific qualifying criteria for hedge accounting and therefore must be classified as trading. Derivatives are subject to the same types of credit and market risk as other financial instruments, and we manage these risks in a consistent manner.

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

Under NZ IFRS, all derivative financial instruments, including those used as hedging instruments, are measured at fair value and recognized in the balance sheet.

NZ$ millions	Face or Contract Value	Fair Value Gain	Fair Value Loss	Face or Contract Value	Fair Value Gain	Fair Value Loss	Face or Contract Value	Fair Value Gain	Fair Value Loss
									As at September 30,
			2018			2017			2016
Derivatives held for trading									
Foreign exchange derivatives									
Spot and forward contracts	**116,159**	**1,179**	**889**	105,717	615	696	63,895	650	785
Swap agreements	**166,698**	**2,248**	**2,146**	164,131	1,773	1,895	141,306	1,718	3,157
Options purchased	**2,171**	**34**	**3**	1,301	17		2,379	50	2
Options sold	**2,058**	**2**	**24**	1,268	2	27	2,248	7	77
Commodity contracts and credit default swaps	**419**	**26**	**26**	320	13	14	460	33	30
Interest rate derivatives									
Forward rate agreements	**75,204**	**5**	**4**	33,945			41,507	1	5
Swap agreements	**841,108**	**4,242**	**3,920**	1,049,894	7,062	6,335	1,178,795	17,910	17,087
Futures contracts	**20,743**	**7**	**10**	80,583	5	24	78,988	3	45
Options purchased	**119**	**3**		1,928	3		2,366	6	-
Options sold	**709**		**1**	1,239		1	1,603	1	2
Total derivatives held for trading	**1,225,388**	**7,746**	**7,023**	1,440,326	9,490	8,992	1,513,547	20,379	21,190
Derivatives in hedging relationships									
(a) Designated as cash flow hedges									
Interest rate swap agreements	**31,516**	**286**	**253**	22,955	302	216	18,985	493	381
(b) Designated as fair value hedges									
Interest rate swap agreements	**29,804**	**54**	**819**	42,038	86	618	34,639	238	386
Total derivatives held for hedging	**61,320**	**340**	**1,072**	64,993	388	834	53,624	731	766
Total derivatives	**1,286,708**	**8,086**	**8,095**	1,505,319	9,878	9,826	1,567,171	21,110	21,956

Collateral of $845 million was received as at September 30, 2018, in relation to derivative financial instruments (September 30, 2017: $613 million; September 30, 2016: $529 million).

Collateral of $1,919 million was paid as at September 30, 2018, in relation to derivative financial instruments (September 30, 2017: $1,415 million; September 30, 2016: $2,310 million).

Contingent Liabilities and Credit Related Commitments

We guarantee the performance of customers by issuing standby letters of credit and guarantees to third parties, including ANZBGL. 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 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 our activity in the various products and not the much smaller net risk exposure. As we do 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.

We do not disclose fair value information in respect of off-balance sheet financial instruments, other than derivatives, as we do 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 our off-balance sheet financial instruments are as follows:

	As at September 30,		
NZ$ millions	**2018**	2017	2016
Contract amount of:			
Credit related commitments - facilities provided			
Undrawn facilities	**27,245**	26,769	27,296
Guarantees and contingent liabilities			
Guarantees and letters of credit	**1,531**	1,010	850
Performance related contingencies	**1,329**	1,598	1,611
Contracts for outstanding capital expenditure			
Commitments with certain drawdown due within one year	**7**	4	5

Other Contingent Liabilities

See "Risk Factors—Risks relating to our business—Litigation and contingent liabilities may adversely affect our business, operations, financial condition and reputation" in this Offering Memorandum.

Other Court Proceedings

There are outstanding court proceedings, claims and possible claims for and against ANZ New Zealand. 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 the interests of ANZ New Zealand.

Regulatory Reviews and Customer Exposures

In recent years, there has been an increase in the number of matters on which we engage with our regulators. Globally, there have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators and customer claims. We also instigate engagement with our regulators. The nature of these investigations and reviews can be wide-ranging and, for example, may include a range of matters including responsible lending practices, product suitability, wealth advice and adequacy of product disclosure documentation. We have received various notices and requests for information from our regulators as part of both industry-wide and reviews specific to us, and we have also made disclosures to our regulators at our own instigation. 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.

Capital Adequacy

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 the RBNZ document entitled "*Capital Adequacy Framework (Internal Models Based Approach)*" (BS2B).

The following table provides details of our Common Equity Tier 1, Tier 1 and Tier 2 capital position as at September 30, 2018, and September 30, 2017. The capital ratios are calculated using an internal models based approach and in accordance with RBNZ's Basel III capital standards.

NZ$ millions, unless otherwise stated	RBNZ	As at September 30,	
	Minimum	2018	2017
Common equity tier 1 capital (%)	4.5	11.1	10.7
Tier 1 capital (%)	6.0	14.4	14.1
Total capital (%)	8.0	14.4	14.4
Buffer ratio (%)	2.5	6.4	6.2
Capital of ANZ New Zealand			
Tier 1 capital			
Common equity tier 1 capital			
Paid up ordinary shares issued by ANZ New Zealand		11,588	8,588
Retained earnings (net of appropriations)		1,188	3,845
Accumulated other comprehensive income and other disclosed reserves		33	48
Less deductions from common equity tier 1 capital			
Goodwill and intangible assets, net of associated deferred tax liabilities		(3,381)	(3,399)
Cash flow hedge reserve		(22)	(43)
Expected losses to extent greater than total eligible allowances for impairment		(325)	(312)
Common equity tier 1 capital		**9,081**	**8,727**
Additional tier 1 capital			
Preference shares		300	300
ANZ Capital Notes		2,441	2,441
Capital attributable to Bonus Bonds Scheme investors		35	37
Additional tier 1 capital		2,776	2,778
Total tier 1 capital		**11,857**	**11,505**
Tier 2 capital			
Qualifying amounts of tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements			
NZD 835,000,000 perpetual subordinated bond		-	835
Less deductions for tier 2 capital			
Basel III transition adjustment		-	(601)
Total tier 2 capital		**-**	**234**
Total capital		**11,857**	**11,739**

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 internal ratings based approach for calculating capital adequacy ratios.

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ANZ New Zealand is accredited by the RBNZ to use the internal ratings based approach for calculating capital adequacy ratios.

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 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.

The RBNZ defines total regulatory capital as the sum of Tier 1 capital and Tier 2 capital. Tier 1 capital comprises Common Equity Tier 1 capital and Additional Tier 1 capital. Each category of capital is calculated net of the associated regulatory adjustments prescribed by the RBNZ.

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, internal economic risk capital principles and risk appetite.

ANZ New Zealand has minimum and trigger levels for Common Equity Tier 1, 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;
- ensure consistency with ANZ New Zealand's overall risk profile and financial positions, taking into account its strategic focus and business plan; and
- support the economic risk capital requirements of the business.

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 periodic review conducted by internal audit.

ANZ New Zealand has complied with all externally imposed capital requirements to which it is subject during the current and comparative periods.

ANZ New Zealand's Capitalization

ANZ New Zealand's Common Equity Tier 1 capital adequacy ratio was 11.1% as at September 30, 2018, an increase from 10.7% as at September 30, 2017. The Tier 1 capital adequacy ratio was 14.4% as at September 30, 2018, an increase from 14.1% as at September 30, 2017. The total capital adequacy ratio was 14.4% as at September 30, 2018, no change from 14.4% as at September 30, 2017.

Risk Weighted Exposures

Credit Risk

Under the Internal Ratings Based Approach ("**IRB**"), 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.

For exposures classified under Specialized Lending, banks use slotting tables prescribed by the RBNZ rather than internal estimates to determine risk weighted exposures.

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.

For a minor number of portfolios the IRB approach is not adopted as, due to systems constraints or other reasons, determining IRB estimates is not currently feasible or appropriate. Risk weights for these exposures are calculated under a standardized methodology set out in the RBNZ document entitled "Capital Adequacy Framework (Standardized Approach)" (BS2A).

Operational Risk

Banks are required to hold capital against operational risks associated with their business. ANZ New Zealand uses the Advanced Measurement Approach for determining its regulatory capital requirement for operational risk in accordance with BS2B. Operational Risk capital is modelled at a New Zealand divisional level and then distributed and adjusted for the business environment and internal controls down to the business units using the Risk Scenario Methodology. The Risk Scenario Methodology is a risk based methodology that ensures that there is sufficient operational risk capital held as a buffer for rare and severe unexpected operational loss events that may materially impact the New Zealand business. The Methodology applies a combination of expert judgment, business unit risk profiles, audit findings and internal and external loss events to derive a series of business specific Risk Scenarios that are applied to the capital model. The Risk Scenario approach:

- assesses the level of ANZ New Zealand's exposure to specified risk scenarios;
- assesses the scope and quality of ANZ New Zealand's internal control environment, key operational processes and risk mitigants; and
- directly links these assessments to operational risk capital.

ANZ New Zealand's operational risk capital is calculated using the ANZBGL methodology, but with standalone New Zealand inputs to ensure there are no diversification benefits, as required by the RBNZ. The calculation does not incorporate any insurance mitigation impact.

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.

Internal capital measurement

In accordance with its Conditions of Registration, ANZ New Zealand is also required to maintain an internal economic capital allocation for other material risks not covered by regulatory capital requirements. The measurement and management of any other material risks is covered in ANZ New Zealand's Economic Capital model, which is used within its ICAAP. Economic capital is assessed as the unexpected loss measured to a 99.97% confidence level. The internal capital allocation for ANZ New Zealand's other material risks as at September 30, 2018, was $389 million ($421 million as at September 30, 2017), including pension risk, insurance risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk, value in-force risk, business retention risk and software risk.

Regulatory Capital

Regulatory capital comprises Common Equity Tier 1 capital, Additional Tier 1 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.

Common Equity Tier 1 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.

Additional Tier 1 capital includes eligible perpetual shares or debt and Tier 2 capital includes eligible subordinated long-term debt. Both Additional Tier 1 capital and Tier 2 capital instruments must include non-viability trigger events. Additional Tier 1 capital instruments classified as a liability under NZ GAAP must also include loss absorption requirements for a Common Equity Tier 1 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 Common Equity Tier 1 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, ANZ New Zealand must limit its aggregate distributions (including dividends, share buybacks and discretionary payments on Additional Tier 1 capital instruments) in accordance with its conditions of registration. The buffer ratio comprises a conservation buffer of common equity set at 2.5% of risk-weighted assets and also potentially a countercyclical buffer of common equity that will only be deployed when the RBNZ judges that excess private sector credit growth or rapid growth in asset prices is leading to a build-up of system-wide risk.

The RBNZ is undertaking a comprehensive review of the capital adequacy framework applying to New Zealand locally incorporated registered banks. The aim of the review is to identify the most appropriate framework for setting capital requirements for New Zealand banks, taking into account how the current framework has operated and international developments in bank capital requirements. See "Regulation and Supervision—RBNZ review of capital requirements" for further discussion.

Risk Weighted Assets

Total required capital as at September 30, 2018

NZ $ millions	**Exposure at default**	**Risk weighted exposure or implied risk weighted exposure**[1]	**Total capital requirement**
Exposures subject to internal ratings based approach	168,085	56,088	4,487
Specialized lending exposures subject to slotting approach	12,183	10,783	863
Exposures subject to standardized approach	1,901	528	42
Equity exposures	7	28	2
Other exposures	3,440	1,592	127
Total credit risk	185,616	69,019	5,521
Operational risk	n/a	6,027	482
Market risk	n/a	4,776	382
Agri business supervisory adjustment	n/a	2,325	186
Total capital requirement	185,616	82,147	6,571

(1) Total credit risk-weighted exposures include a scalar of 1.06 in accordance with ANZ New Zealand's Conditions of Registration.

Capital Ratios		**As at September 30,**	
(%)	**2018**	2017	2016
Common equity tier 1 capital	**11.1**	10.7	10.0
Tier 1 Capital	**14.4**	14.1	13.2
Tier 2 Capital	**-**	0.3	0.5
Total Capital[1]	**14.4**	14.4	13.7

(1) Total capital base as a percentage of risk weighted assets.

Risk management policies

We recognize the importance of effective risk management to our business success. We are committed to achieving strong control and a distinctive risk management capability that enables ANZ New Zealand's business units to meet their performance objectives.

We approach 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 our strategy; and
- independent oversight to ensure business unit level compliance with policies, regulations and laws, and to provide regular risk evaluation and reporting.

We manage 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 our 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. Our 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. We have 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.

Our 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

We have 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 our Vision and Values and secondly, by Credit Principles and Policies. We also maintain a Bank-wide risk appetite framework and business writing strategies for each of our 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 our 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. We allow 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

We have 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. We have 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 we have 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. We use 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. We maintain 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 "Regulation and Supervision—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 us 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 employees, contractors or any internal party to the ANZ New Zealand Group 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 us 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 our 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 behaviour, 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 our banking operating systems are disrupted or fail;

- damage to physical assets: risk that a natural disaster or terrorist or vandalism attack damages our buildings or property; and

- execution, delivery and process management: is associated with losses resulting from, among other things, process errors made by our employees caused by inadequate or poorly designed internal processes, or the poor execution of standard processes, vendor, supplier or outsource provider errors or failed mandatory reporting errors.

Risk Management is responsible for establishing our 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 ANZ New Zealand. The Board and Risk Management conduct effective oversight through the approval of operational risk policies and frameworks and monitoring key operational risk metrics.

Compliance

We conduct our business in accordance with all relevant compliance requirements. In order to assist us to identify, manage, monitor and measure our compliance obligations, we have a comprehensive regulatory compliance framework in place, which addresses both external (regulatory) and internal compliance.

Risk Management, in conjunction with business unit staff, ensures we operate 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 our 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. Our 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

Our Internal Audit function conducts independent reviews that assist the Board and management to meet their statutory and other obligations.

Internal Audit reports directly to the Chair of the ANZ New Zealand Audit Committee and through to the Group General Manager Internal Audit ANZBGL. Under its Charter, Internal Audit is responsible for conducting independent reviews of the internal controls of ANZ New Zealand, having regard to its assessed risk profile. This shall include:

- assessing the processes for managing and monitoring major and extreme residual risks to ANZ New Zealand;
- assessing compliance with ANZ New Zealand's policies;
- assessing the processes to ensure adequacy of ANZ New Zealand's compliance with the requirements of supervisory regulatory authorities;
- representation in tripartite meetings with regulators, ANZ Group management and the external auditors;
- supporting the economic and efficient management of resources; and
- enhancing the effectiveness of risk management for operations undertaken by ANZ New Zealand.

In planning the audit activities, Internal Audit adopts a risk-based audit methodology that directs and concentrates resources to those areas of greatest significance, strategic concern and risk to the business. This encompasses reviews of major credit, market, technology and operating risks within the ANZ New Zealand Group. Significant findings are reported quarterly to the Audit Committee.

The Internal Audit plan is approved by our Audit Committee and endorsed by the ANZBGL Audit Committee.

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

Additional Financial and Statistical Information

Set out below is additional financial and statistical information for our business for the periods indicated. For additional information concerning our financial results for the financial years ended September 30, 2018, 2017 and 2016, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Offering Memorandum and the Disclosure Statements.

Assets and liabilities

The following table sets forth the assets and liabilities of our business as at the dates indicated:

		As at September 30,	
NZ$ millions	**2018**	2017	2016
Assets			
Cash	**2,200**	2,338	2,274
Settlement balances receivable	**656**	536	396
Collateral paid	**1,919**	1,415	2,310
Trading securities	**8,024**	7,663	11,979
Derivative financial instruments	**8,086**	9,878	21,110
Available-for-sale assets	**6,502**	6,360	2,859
Net loans and advances	**126,466**	117,627	114,623
Assets held for sale	**897**	3,065	-
Life insurance contract assets	**-**	636	630
Investments in associates	**6**	7	7
Goodwill and other intangibles	**3,289**	3,275	3,424
Investments backing insurance contract liabilities	**-**	123	119
Premises and equipment	**325**	367	387
Other assets	**642**	683	701
Total assets	**159,012**	153,973	160,819
Liabilities			
Settlement balances payable	**2,161**	1,840	1,771
Collateral received	**845**	613	529
Deposits and other borrowings	**108,008**	101,657	99,066
Derivative financial instruments	**8,095**	9,826	21,956
Current tax liabilities	**161**	39	21
Deferred tax liabilities	**21**	187	145
Liabilities held for sale	**334**	1,088	-
Payables and other liabilities	**947**	1,151	1,119
Employee entitlements and other provisions	**196**	185	206
Unsubordinated debt	**22,696**	21,323	20,014
Subordinated debt	**2,439**	3,283	3,282
Total liabilities	**145,903**	141,192	148,109
Net assets	**13,109**	12,781	12,710

Credit risk concentration

The following table sets forth 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 September 30, 2018
NZ$ millions	**Total lending**	**Impaired assets**	**Specific provision**	**Write-offs**	**Recoveries**	**Net write-off**
Agriculture	**17,844**	156	37	9	2	7
Forestry and fishing, agriculture services	**1,379**	2	1	-	-	-
Manufacturing	**2,687**	27	12	4	-	4
Electricity, gas, water and waste services	**1,403**	-	-	-	-	-
Construction	**1,713**	6	4	3	-	3
Wholesale trade	**1,404**	20	6	3	-	3
Retail trade and accommodation	**3,211**	13	8	4	-	4
Transport, postal and warehousing	**1,222**	3	3	1	-	1
Finance and insurance services	**1,000**	50	36	20	-	20
Public administration and safety	**364**	-	-	-	-	-
Rental, hiring & real estate services	**31,805**	8	4	3	-	3
Professional, scientific, technical, administrative and support services	**1,165**	3	-	1	-	1
Households	**58,320**	31	9	72	21	51
Other	**3,387**	2	10	29	7	22
Total lending	**126,904**	321	130	149	30	119

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 shows the actual PLA Notices issued and mortgagee sales concluded from January 2013 to September 2018.

2013	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PLA issued	48	34	49	50	55	84	59	46	50	75	66	22
Mortgagee sales concluded	14	11	14	16	16	13	12	19	18	15	18	16

2014	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PLA issued	48	59	55	43	33	41	45	47	54	28	44	9
Mortgagee sales concluded	12	17	13	13	19	8	17	14	20	6	9	17

2015	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PLA issued	60	43	51	36	32	39	21	25	40	19	17	7
Mortgagee sales concluded	10	6	7	13	7	8	9	6	9	11	8	6

2016	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PLA issued	37	27	25	31	22	17	11	33	19	16	17	7
Mortgagee sales concluded	8	3	8	8	5	6	15	4	6	2	3	2

2017	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PLA issued	13	19	5	3	8	6	11	6	8	13	19	4
Mortgagee sales concluded	-	2	4	7	9	7	4	7	1	6	6	1

2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
PLA issued	14	14	12	14	12	9	13	5	5
Mortgagee sales concluded	1	-	2	1	5	3	3	4	4

Interest rate exposures

The interest rate sensitivity analysis of on-balance sheet financial assets and liabilities has been prepared on the basis of contractual maturity or next re-pricing 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 we are 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.

Our repricing "gap position" as at September 30, 2018, is shown in the following table:

							As at September 30, 2018
NZ$ millions	**Total**	**less than 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 2 years**	**Beyond 2 years**	**Non-interest bearing**
Financial Assets							
Cash and cash equivalents	2,200	1,913	-	-	-	-	287
Settlement balances receivable	656	-	-	-	-	-	656
Collateral paid	1,919	1,919	-	-	-	-	-
Trading securities	8,024	873	405	492	1,373	4,881	-
Derivative financial instruments	8,086	-	-	-	-	-	8,086
Available-for-sale assets	6,502	338	699	42	1,351	4,071	1
Net loans and advances	126,466	63,027	10,370	23,835	20,835	8,771	(372)
Other financial assets	719	62	55	8	-	2	592
Total financial assets	154,572	68,132	11,529	24,377	23,559	17,725	9,250
Liabilities							
Settlement balances payable	2,161	750	-	-	-	-	1,411
Collateral received	845	845	-	-	-	-	-
Deposits and other borrowings	108,008	67,952	12,924	12,444	3,043	1,421	10,224
Derivative financial instruments	8,095	-	-	-	-	-	8,095
Debt issuances	25,135	3,979	3,046	757	3,782	13,571	-
Other financial liabilities	686	111	-	-	-	-	575
Total financial liabilities	144,930	73,637	15,970	13,201	6,825	14,992	20,305
Hedging instruments	-	14,690	1,522	(14,121)	(9,146)	7,055	-
Interest sensitivity gap	9,642	9,185	(2,919)	(2,945)	7,588	9,788	(11,055)

General banking statistics

The following table provides ratio information relating to our business:

(%, unless otherwise stated)	**2018**	2017	2016	2015	2014
					As at September 30,
Cost to income ratio[1]	**35.48**	36.93	41.49	37.33	38.90
Cost to average total assets ratio[2]	**0.96**	0.93	1.02	1.09	1.19
Capital adequacy ratio[3]	**14.4**	14.4	13.7	13.6	12.3
Risk-weighted exposures (NZ$ millions)[4]	**82,147**	81,642	87,119	80,662	73,427
Return on average risk-weighted exposures[5]	**2.39**	2.07	1.83	2.31	2.38
Net interest margin[6]	**2.20**	2.21	2.28	2.40	2.48
Non-interest income as a percentage of assets[7]	**0.71**	0.59	0.55	0.85	0.87
Non-interest income as a percentage of total income[8]	**26.33**	23.60	22.11	29.01	28.34

(1) Operating expenses divided by operating income.

(2) Operating expenses divided by average total assets as shown in the average balance sheet on page 82.

(3) Capital base divided by total risk weighted exposures, as defined by the RBNZ.

(4) Risk weighted exposures have been calculated under the Basel III framework. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Internal capital measurement—Regulatory Capital" on page 92 in this Offering Memorandum.

(5) Profit after income tax divided by average risk weighted exposures. Averages are based on quarterly balances.

(6) Net interest income divided by average interest earning assets.

(7) Operating income less net interest income divided by average assets.

(8) Operating income less net interest income divided by operating income.

Loans and advances by category

Our portfolio by category of loans and advances is set forth in the following table. The statistics reflect our gross loan advances including provisions and net of unearned income.

NZ$ millions	**2018**	2017	2016	2015	2014
					As at September 30,
Overdrafts	**905**	1,040	1,133	1,638	1,744
Credit cards	**1,644**	1,638	1,663	1,688	1,580
Term loans - housing	**78,395**	72,524	67,298	59,428	52,717
Term loans - non-housing	**44,169**	44,227	43,651	42,880	39,622
Lease receivables	**183**	205	226	236	277
Hire purchase	**1,608**	1,372	1,098	946	837
Other	**-**	-	-	-	125
Gross loans and advances	**126,904**	121,006	115,069	106,816	96,902
Provision for impairment	**(512)**	(579)	(622)	(611)	(666)
Unearned finance income	**(239)**	(222)	(211)	(214)	(212)
Capitalized brokerage / mortgage origination fees	**313**	334	360	314	208
Customer liability for acceptances	**-**	-	27	52	67
Total net loans and advances	**126,466**	120,539	114,623	106,357	96,299

Performance statistics

The following table sets forth our average interest earning assets, net interest income, gross earning rate and net interest margin for the periods indicated:

NZ$ millions (unless otherwise stated)	Financial year ended September 30, 2018	2017	2016
Average interest earning assets[1]	**143,297**	137,608	131,442
Net interest income	**3,150**	3,037	3,002
Gross earning rate (%)[2]	**4.46**	4.50	4.89
Net interest margin (%)[3]	**2.20**	2.21	2.28

(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" on page 82 of this Offering Memorandum. Unless otherwise stated, the methodology for calculating average balances is included in that table.

(2) Average interest rate received on interest earning assets.

(3) Net interest income divided by average interest earning assets.

On-balance sheet and off-balance sheet exposures subject to internal ratings based approach

The following table sets forth ANZ New Zealand's on-balance sheet and off-balance sheet exposures under the Internal Ratings Based Approach:

As at September 30, 2018

NZ$ millions (unless otherwise stated)	Total exposure or principal amount	Exposure at default	Exposure-weighted LGD used for the capital calculation (%)	Exposure-weighted risk weight (%)	Risk weighted exposure[1]	Total capital requirement
On-balance sheet exposures						
Corporate	34,724	34,604	33	53	19,298	1,543
Sovereign	12,178	11,855	5	1	120	10
Bank	5,907	5,262	56	19	1,073	86
Retail mortgages	76,168	76,391	19	19	15,761	1,261
Other retail	5,358	5,449	73	93	5,372	429
Total on-balance sheet exposures	134,335	133,561	25	29	41,624	3,329
Off-balance sheet exposures						
Corporate	12,154	11,210	48	48	5,684	455
Sovereign	346	313	5	1	2	-
Bank	1,787	1,445	53	18	272	22
Retail mortgages	8,232	8,643	16	14	1,237	99
Other retail	5,514	5,532	79	57	3,333	267
Total off-balance sheet exposures	28,033	27,143	44	37	10,528	843
Market related contracts						
Corporate	87,191	2,756	61	73	2,121	170
Sovereign	14,642	148	5	30	48	4
Bank	962,075	4,477	61	37	1,767	141
Total market related contracts	1,063,908	7,381	60	50	3,936	315
Total credit risk exposures subject to the internal ratings based approach	1,226,276	168,085	30	31	56,088	4,487

(1) Total credit risk-weighted exposures include a scalar of 1.06 in accordance with ANZ New Zealand's Conditions of Registration.

Impaired Assets

Gross impaired assets have decreased $36 million, or 10%, from $357 million at September 30, 2017, to $321 million at September 30, 2018. The decrease was driven by lower levels of new provisions raised and a combination of asset realizations and write-offs in the CommAgri business, partly offset by an increase in new provisions raised for one large customer in the Institutional business. We continue our strategy of working with customers to return them to a productive status or to achieve maximum recoveries for us 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 at September 2018 were $149 million.

The following table sets forth details of our impaired assets for the periods indicated:

					As at September 30,
NZ$ millions, unless otherwise stated	**2018**	2017	2016	2015	2014
Gross balances of impaired assets					
with individual provisions set aside	**298**	334	401	368	593
without individual provisions set aside	**23**	23	25	14	41
Gross impaired assets	**321**	357	426	382	634
Individual provision for credit impairment	**130**	152	151	154	215
Net impaired assets	**191**	205	275	228	419
Details of size of gross impaired assets					
Less than one million	**56**	56	95	137	214
Greater than one million but less than ten million	**126**	131	166	114	195
Greater than ten million	**139**	170	165	131	225
Gross impaired assets	**321**	357	426	382	634
Past due loans not shown as impaired assets					
Impaired assets do not include loans accruing interest which are in arrears 90 days or more where the loans are well secured. Interest revenue continues to be recognized in the balance sheet. The value of past due loans	**205**	182	130	197	150
Interest income forgone on impaired assets during the period					
Net interest charged but not recognized in the income statement	**11**	18	23	28	43
Net interest charged and recognized in the income statement	**9**	14	13	18	24
Analysis of movements in impaired assets					
Balance at the beginning of the period	**357**	426	382	634	901
Recognition of new impaired assets and increases in previously recognized impaired assets	**395**	571	588	370	615
Impaired assets written off during the period	**(149)**	(133)	(152)	(152)	(176)
Impaired assets which have been realized or restated as performing assets and impaired assets where the value of the security held has been realized	**(282)**	(507)	(392)	(470)	(706)
Balance at the end of the period	**321**	357	426	382	634
Gross impaired assets as a percentage of gross loans and advances (%)	**0.25**	0.30	0.37	0.36	0.65
Gross impaired assets & 90 days past due assets as a percentage of gross loans and advances (%)	**0.41**	0.45	0.48	0.54	0.81

Credit impairment charge

ANZ New Zealand's lending portfolio is largely secured against residential property, rural land, commercial property and other business assets.

Reflecting that collateral backing, approximately 51% 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 $7 million from a charge of $62 million at September 30, 2017, to a charge of $55 million at September 30, 2018. The collective provision charge at September 30, 2018 decreased $1 million from a release of $44 million at September 30, 2017, to a release of $45 million at September 30, 2018, due to portfolio growth partly offset by a credit cycle release. The decrease in credit impairment charge was driven by lower levels of provisions in the CommAgri business mainly driven by a release of collective provision relating to the dairy sector.

The individual provision charge at September 30, 2018 decreased $6 million from $106 million at September 30, 2017, to $100 million at September 30, 2018, due to fewer new provisions raised in the CommAgri business, partly offset by new provisions raised for one large customer in the Institutional business.

The following table sets forth details of our provisions for impaired assets for the periods indicated:

					As at September 30,
NZ$ millions (unless otherwise stated)	**2018**	2017	2016	2015	2014
Collective provision					
Balance at the beginning of the period	**427**	471	457	451	542
(Credit) / Charge to income statement	**(45)**	-44	14	6	(91)
Balance at the end of the period	**382**	427	471	457	451
Individual provision					
Balance at the beginning of the period	**152**	151	154	215	284
Charge to income statement	**100**	106	136	68	75
Recoveries	**30**	31	25	29	29
Bad debts written off	**(149)**	(133)	(152)	(152)	(176)
Discount unwind	**(3)**	(3)	(12)	(6)	3
Balance at the end of the period	**130**	152	151	154	215
The provision for impairment expressed as a percentage of gross impaired assets less interest reserved (%):					
Individual provisions	**40.63**	42.58	35.45	40.31	33.91
Total provisions	**160.00**	162.18	146.01	159.95	105.04
Collective provision for impairment expressed as a percentage of credit risk-weighted exposures (%)	**0.54**	0.60	0.65	0.66	0.72

Loan quality

We maintain a systematic, continuous approach to the collection of loan arrears, and we issue notices of arrears or defaults in terms detailed in policies and procedures. For purposes of loan quality, we distinguish between commercial loans and other (including residential mortgage) loans. We generally classify commercial loans and housing loans as either performing, impaired or, in some cases, restructured assets.

We monitor consumer loan quality by independently verifying arrears and producing and distributing detailed credit performance reports to management. In addition, we closely examine 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. We manage 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.

Our individual provisioning policy varies depending on the category of lending provided. We raise an individual provision on non-accrual loans based on expected security realization values less selling costs.

Non-accrual loans

The following table sets forth our impaired assets and details of individual provisions for credit impairment for the dates indicated:

					As at September 30,
NZ$ millions, unless otherwise stated	**2018**	2017	2016	2015	2014
Gross balances of impaired assets					
with individual provisions set aside	**298**	334	401	368	593
without individual provisions set aside	**23**	23	25	14	41
Gross impaired assets	**321**	357	426	382	634
Individual provision for credit impairment	**130**	152	151	154	215
Net impaired assets	**191**	205	275	228	419
Net impaired assets as a percentage of gross loans and advances (%)	**0.15**	0.17	0.24	0.21	0.43

Past due loans

The following table shows the net amount of our past due loans, which are loans where repayment of the facility was contractually 90 days or more in arrears for the dates indicated. Interest on these past due loans is accrued and brought to account in the income statement:

					As at September 30,
NZ$ millions	**2018**	2017	2016	2015	2014
Gross loans past due not subject to individual provision[1]	**205**	182	130	197	150
Gross impaired assets	**321**	357	426	382	634
Total past due loans	**526**	539	556	579	784

(1) 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.

Provisions for credit impairment

The following table sets forth details of our provision for credit impairment on our loan portfolio and other assets for the periods indicated:

			Financial year ended September 30,		
NZ$ millions, unless otherwise stated	**2018**	2017	2016	2015	2014
Provision for credit impairment					
Balance at the beginning of the period	**579**	622	611	666	826
Net increase in provisions (see (i) below)	**55**	62	150	74	-16
Bad debts recovered	**30**	31	25	29	29
Reversal of individual provisions as a result of bad debt write-offs (see (ii) below)	**(149)**	(133)	(152)	(152)	(176)
Discount unwind	**(3)**	(3)	(12)	(6)	3
Balance at end of the period	**512**	579	622	611	666

NZ$ millions	**2018**	2017	2016	2015	2014
					As at September 30,
(i) Net movement in provision by industry category:					
Collective provision	**(45)**	(44)	14	6	(91)
Agriculture	**16**	(9)	33	(5)	(33)
Forestry and fishing, agriculture services	**(1)**	-	3	2	1
Manufacturing	**(19)**	39	6	2	5
Electricity, gas, water and waste services	**-**	(1)	-	-	(1)
Construction	**2**	1	3	5	6
Wholesale trade	**(2)**	10	1	(2)	(8)
Retail trade and accommodation	**(6)**	1	37	2	5
Transport, postal and warehousing	**2**	-	3	-	21
Finance and insurance services	**56**	-	-	1	1
Public administration and safety	**-**	-	1	-	2
Rental, hiring & real estate services	**1**	(12)	(3)	1	(1)
Professional, scientific, technical, administrative and support services	**1**	-	1	1	3
Households	**50**	51	48	45	68
Other	**-**	26	3	16	6
Net movement in provisions	**55**	62	150	74	(16)

NZ$ millions	**2018**	2017	2016	2015	2014
					As at September 30,
(ii) Reversal of individual provisions as a result of bad debt write-offs by industry category:					
Agriculture	**(9)**	(5)	(16)	(3)	(5)
Forestry and fishing, agriculture services	**-**	(2)	(3)	(2)	(1)
Manufacturing	**(4)**	(14)	(9)	(4)	(22)
Electricity, gas, water and waste services	**-**	-	(1)	-	-
Construction	**(3)**	(2)	(4)	(9)	(8)
Wholesale trade	**(3)**	(3)	(1)	(1)	(1)
Retail trade and accommodation	**(4)**	(13)	(16)	(5)	(9)
Transport, postal and warehousing	**(1)**	(3)	(6)	(13)	(6)
Finance and insurance services	**(20)**	-	-	(1)	(4)
Public administration and safety	**-**	-	(1)	(1)	(1)
Rental, hiring & real estate services	**(3)**	(1)	(9)	(8)	(10)
Professional, scientific, technical, administrative and support services	**(1)**	(2)	(2)	(4)	(2)
Households	**(72)**	(73)	(80)	(80)	(93)
Other	**(29)**	(15)	(4)	(21)	(14)
Total reversal of individual provisions	**(149)**	(133)	(152)	(152)	(176)

Total provisions by industry

The following table provides a breakdown by category of our total provisions for doubtful debts on loans and receivables:

	As at September 30, 2018		As at September 30, 2017	
	NZ$ millions	**%**	NZ$ millions	%
Collective provision	**382**	**75**	427	74
Agriculture	**37**	**7**	31	4
Forestry and fishing, agriculture services	**1**	**-**	3	1
Manufacturing	**12**	**2**	37	6
Electricity, gas, water and waste services	**-**	**-**	-	-
Construction	**4**	**1**	3	1
Wholesale trade	**6**	**1**	11	2
Retail trade and accommodation	**8**	**2**	18	3
Transport, postal and warehousing	**3**	**1**	1	-
Finance and insurance services	**36**	**7**	-	-
Public administration and safety	**-**	**-**	-	-
Rental, hiring & real estate services	**4**	**1**	7	1
Professional, scientific, technical, administrative and support services	**-**	**-**	1	-
Households	**9**	**2**	11	2
Other	**10**	**2**	29	6
Total provisions	**512**	**100**	579	100

Maturity distribution of borrowings

As at September 30, 2018, maturities of our total wholesale funding were as follows:

NZ$ millions	Extend 1 year or less	After 1 year through 5 years	After 5 years through 10 years	No maturity specified	Total
NZ$ Subordinated Notes	-	498	1,941	-	**2,439**
A$ Subordinated Notes	-	-	-	-	**-**
Euro Fixed Rate Notes	848	5,013	879	-	**6,740**
A$ Fixed Rate Notes	-	-	45	-	**45**
NZ$ Fixed Rate Notes	644	2,000	-	-	**2,644**
NZ$ Floating Rate Notes	446	1,125	-	-	**1,571**
US$ Fixed Rate Notes	1,611	5,985	1,513	-	**9,109**
US$ Floating Rate Notes	15	878	-	-	**893**
JPY Fixed Rate Notes	36	-	-	-	**36**
CHF Fixed Rate Notes	225	465	968	-	**1,658**
US$ Commercial Paper	2,486	-	-	-	**2,486**
Euro Commercial Paper	-	-	-	-	**-**
Registered Certificates of Deposit	910	-	-	-	**910**
Other wholesale borrowings	557	-	-	-	**557**
Total wholesale funding	7,778	15,964	5,346	-	**29,088**

Average deposits

Details of our average deposits and short term borrowings are provided in the following table for the dates indicated:

NZ$ millions (unless otherwise stated)	**Financial year ended September 30,**					
	2018		2017		2016	
	Average balance	**Average rate paid (%)**	Average balance	Average rate paid (%)	Average balance	Average rate paid (%)
Term deposits[1]	**50,175**	**3.34**	45,277	3.35	39,414	3.76
Other deposits and borrowings	**43,885**	**1.28**	44,141	1.30	45,072	1.83
Commercial paper	**2,841**	**2.04**	4,325	2.82	6,265	3.61
Total[2]	**96,901**	**2.37**	93,743	2.36	90,751	2.79

(1) Term deposits include quoted rate term deposits, negotiable certificates of deposit and floating rate certificates of deposit.

(2) 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" on page 82 of this Offering Memorandum. Unless otherwise stated, the methodology for calculating average balances is included in that table.

Certificates of deposit and other term deposit maturities

The following table shows the maturity profile of our certificates of deposit and other term deposits. The amounts disclosed in the table represent undiscounted future principal cash flows:

NZ$ millions	**As at September 30, 2018**			
	3 months or less	**Over 3 months through 12 months**	**Over 12 months**	**Total**
Certificates of deposit	805	105	-	**910**
Other term deposits	23,131	24,582	4,516	**52,229**
Total certificates of deposits and other term deposits	23,936	24,687	4,516	**53,139**

Trading securities

The following table shows the book value and market value of our holdings of trading securities as at the dates indicated:

NZ$ millions	**2018**	2017	2016
	As at September 30,		
Trading securities at book value			
Government securities	**4,696**	3,299	5,953
Other interest bearing securities	**3,328**	4,364	6,026
Total trading securities at book value	**8,024**	7,663	11,979

The following table summarizes the market value of our holdings of trading securities as at September 30, 2018 according to their maturity dates:

NZ$ millions	**As at September 30, 2018**
Maturing in 1 year or less	**2,116**
Maturing between 1 and 5 years	**4,873**
Maturing after 5 years	**1,035**
Total trading securities	**8,024**

The following table provides the maturities and weighted average yields (based on yield rates for fixed interest and discount securities) of our holdings of trading securities at book value:

NZ$ millions (unless otherwise stated)	**Maturing in 1 year or less**	**Maturing between 1 and 5 years**	**Maturing after 5 years**	**Total**	**Average rate (%)[1]**
					As at September 30, 2018
Government securities	1,391	2,723	582	**4,696**	**2.26%**
Other securities	725	2,150	453	**3,328**	**3.23%**
Total trading securities	2,116	4,873	1,035	**8,024**	**2.67%**

(1) Weighted average yield on outstanding trading securities at September 30, 2018 divided by the face value of outstanding trading securities at September 30, 2018.

Funding

The following table sets forth our funding as at the dates indicated:

NZ$ millions	**2018**	As at September 30, 2017	2016
Deposits and short-term borrowings			
Unsecured			
Term deposits[1]	**52,208**	47,373	41,902
Other deposits and borrowings[2]	**52,383**	50,563	50,208
U.S. and Euro commercial paper	**2,486**	3,721	5,364
Total unsecured deposits and other borrowings	**107,077**	101,657	97,474
Secured			
Debenture stock	**931**	1,039	1,592
Total secured deposits	**931**	1,039	1,592
Debt issuances and long-term borrowings			
Unsecured			
Domestic	**6,654**	7,094	7,393
Offshore	**14,552**	12,187	9,685
Total unsecured debt issuances and long term borrowings	**21,206**	19,281	17,078
Secured			
Offshore - covered bonds	**3,929**	5,325	6,218
Total secured debt issuances and long term borrowings	**3,929**	5,325	6,218
Total funding	**133,143**	127,302	122,362
Represented by:			
Customer deposits	**104,055**	96,829	91,360
Wholesale	**29,088**	30,473	31,002
Total funding	**133,143**	127,302	122,362

(1) Term deposits include quoted rate term deposits, negotiable certificates of deposit and floating rate certificates of deposit.

(2) Principally customer deposits.

The following table sets forth our return on assets, return on equity and equity to assets ratio for the periods indicated[1]:

(%)	**2018**	Financial year ended September 30, 2017	2016	2015	2014
Return on average total assets[2]	**1.23**	1.12	0.98	1.29	1.38
Equity to assets ratio[3]	**8.32**	8.22	8.12	8.68	9.53

(1) Where applicable, ratios calculated using average balances have been referenced to the table "Average balance sheet and interest income/expense" on page 82 of this Offering Memorandum. Unless otherwise stated, the methodology for calculating average balances is included in that table.

(2) Return on average total assets is profit after income tax divided by average total assets.

(3) Equity to assets ratio is average shareholders' equity divided by average total assets.

Short-term borrowings (U.S. and Euro Commercial Paper)

The following table sets forth details of our U.S. and Euro commercial paper short-term borrowings as at the dates indicated:

NZ$ millions (unless otherwise stated)	**2018**	As at September 30, 2017	2016
Balance at end of the year (including accrued interest)	**2,486**	3,721	5,364
Maximum amount outstanding at any month end during the year	**4,567**	7,466	7,883
Average amount outstanding during the year	**2,840**	4,325	6,265
Weighted average interest rate during the year (%)[1]	**2.04**	2.82	3.61

(1) Commercial paper interest expense divided by average commercial paper balance.

Australia and New Zealand Banking Group Limited

The following information regarding our parent, ANZBGL, is presented solely for your 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. Its 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 United Kingdom, France, Germany and the United States.

As of September 30, 2018, the ANZ Group had total assets of A$942.6 billion and shareholders' equity excluding non-controlling interests of A$59.2 billion. In terms of total assets among banking groups, the ANZ Group ranked second in Australia[1] as of September 30, 2018, and first in New Zealand[2] as of September 30, 2018.

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 September 28, 2018, ANZBGL had a market capitalization of A$81.0 billion, which ranked among the top five largest companies listed on the ASX[3].

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 Group operates a Markets business which earns revenue from sales, trading and risk management activities. The Group also provides payments and clearing solutions. The Group currently earns revenue from its wealth activities through the provision of insurance, superannuation and funds management services, which are largely classified as discontinued operations.

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:

(1) 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;

(2) Net fee and commission income – represents fee income earned on lending and non-lending related financial products and services;

(3) Net funds management and insurance income – represents income earned from the provision of investment, insurance and superannuation solutions;

(4) 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

(5) Other income – includes 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.

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(1) Source: Commonwealth Bank of Australia results announcement for the financial year ended June 30, 2018; National Australia Bank results announcement for the financial year ended September 30, 2018; Westpac Banking Corporation results announcement for the financial year ended September 30, 2018.

(2) Source: Reserve Bank of New Zealand Bank Financial Strength Dashboard (https://bankdashboard.rbnz.govt.nz/summary) for the quarter ending September 30, 2018.

(3) Source: IRESS.

Strategy

The ANZ Group's strategy is focused on becoming simpler, better balanced and more service-oriented to help people and businesses respond to a changing world.

The ANZ Group believes that the execution of its strategy will deliver consistently strong results for its shareholders, achieving a balance between growth and return, short and long-term results and financial and social impact.

Strategic Priorities
Create a simpler, better balanced bank. Reduce operating costs and risks by removing product and management complexity, exiting low return and non-core businesses and reducing the ANZ Group's reliance on low-returning aspects of institutional banking in particular.
Focus its efforts on areas where the ANZ Group can win. Make buying and owning a home or starting, running and growing a small business in Australia and New Zealand easy. Be the best bank in the world for customers driven by the movement of goods and capital in the ANZ Group's region.
Drive a purpose and values led transformation of the ANZ Group. Create a stronger sense of core purpose, ethics and fairness, investing in leaders who can help sense and navigate a rapidly changing environment.
Build a superior everyday experience for the ANZ Group's customers and its people to compete in the digital age. Build more convenient, engaging banking solutions to simplify the lives of customers and the ANZ Group's people.

Principal activities of the ANZ Group

The ANZ Group operates on a divisional structure with six divisions: Australia, Institutional, New Zealand, Wealth Australia, Asia Retail & Pacific and TSO and Group Center.

As part of the broader simplification strategy for the ANZ Group, there have been several structural changes in the 2018 financial year, which include:

- the Corporate business, formerly part of the Corporate and Commercial Banking business within the Australia division, was transferred to the Institutional division;
- the residual Asia Retail and Wealth businesses in the Philippines, Japan and Cambodia not sold as part of the Asia Retail and Wealth divestment have been transferred to the Institutional division; and
- the ANZ Group made a further realignment by transferring the ANZ Group Hub's (Service Centers) divisional specific operations in TSO and Group Centre to their respective divisions.

Other than as described above, there were no significant structural changes in the 2018 financial year. The divisions reported below are consistent with operating segments as defined in IFRS 8 *Operating* Segments and with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

As of September 30, 2018, the principal activities of the six divisions were:

Australia

The Australia division comprises the Retail and Business & Private Banking ("**B&PB**") 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.

- B&PB provides a full range of banking products and financial services, including asset financing, across the following customer segments: medium to large commercial and agribusiness customers across regional Australia, small business owners and high net worth individuals and family groups.

Institutional

The Institutional division services global institutional and corporate customers across three product sets: Transaction Banking, Loans & Specialized 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.

- 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 and debt capital markets in addition to managing the ANZ Group's interest rate exposure and liquidity position.

New Zealand

See "Overview" in this Offering Memorandum.

Wealth Australia

The Wealth Australia division comprises certain discontinued business operations subject to sales agreements with IOOF Holdings Limited ("**IOOF**") and Zurich Financial Services Australia Limited ("**Zurich**") as described below.

On October 17, 2017, the ANZ Group announced it had agreed to sell its pensions and investments ("**OnePath P&I**") and aligned dealer group ("**ADG**") businesses to Australian Wealth Management Limited, a wholly owned subsidiary of IOOF. The ADG businesses consist of aligned advice businesses that operate under their own Australian Financial Services licenses. The sale of the ADG businesses completed effective from October 1, 2018. The completion of the sale of the remaining OnePath P&I business is expected to occur in the first half of the 2019 financial year.

On December 12, 2017, the ANZ Group announced that it had agreed to sell OnePath Life Australia to Zurich. Regulatory approval was obtained on October 10, 2018. The transaction is subject to other closing conditions and ANZ expects it to close in the first half of the 2019 financial year.

The continuing operations retained in the Wealth Australia division include lenders mortgage insurance, share investing, financial planning and general insurance distribution.

Asia Retail & Pacific

The Asia Retail & Pacific division comprised the Asia Retail and Wealth,[4] and the Pacific business units, connecting customers to specialists for their banking needs.

The ANZ Group announced that it had agreed to sell Retail and Wealth businesses in Singapore, Hong Kong, China, Taiwan and Indonesia to DBS Bank Ltd ("**DBS Bank**") on October 31, 2016, and its Retail business in Vietnam to Shinhan Bank Vietnam on April 21, 2017.

The ANZ Group successfully completed the sales in China, Singapore and Hong Kong in the September 2017 half, and the sales in Vietnam, Taiwan, and Indonesia in the March 2018 half.

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(4) *The Asia Retail and Wealth unit excludes the residual businesses in the Philippines, Japan and Cambodia which were transferred to the Institutional division in the 2018 financial year.*

Prior to the completion of these sales, the Asia Retail and Wealth business unit provided general banking and wealth management services to affluent and emerging affluent retail customers via relationship managers, branches, contact centers and a variety of self-service digital channels (internet and mobile banking, phone and ATMs). Core products offered included deposits, credit cards, loans, investments and insurance.

Post completion of these sales, insignificant run-off activities will remain within the Asia Retail and Wealth unit.

Pacific 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.

Technology, Services & Operations and Group Center

TSO and Group Centre provide support to the operating divisions, including technology, group operations, shared services, property, risk management, financial management, strategy, marketing, human resources and corporate affairs. The Group Centre includes Group Treasury, Shareholder Functions and minority investments in Asia.

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 November 28, 2018 (the "**RBNZ Report**"). The information in this section has been accurately reproduced and as far as we are aware and are 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 of the date of this Offering Memorandum. Additionally, it is not incorporated by reference herein and does not form part of this Offering Memorandum.

New Zealand's financial system is sound and risks have abated a little. However, vulnerabilities remain. Bank capital and liquidity ratios are in excess of current regulatory requirements, and have increased over the past 12 months. Bank profits remain high, reflecting low operating costs and strong asset performance. While positive overall, banks' low costs have been partly achieved through underinvestment in core IT infrastructure and risk management systems in New Zealand.

While the financial system is currently stable, risks remain that could challenge future stability. The principal vulnerabilities are high levels of indebtedness in the household and agriculture sectors, and the reliance on foreign funding of New Zealand's economy and banking system. While these vulnerabilities remain significant, they have improved over the past six months.

Around 60 percent of bank lending is to the household sector. Indebtedness in the household sector is high relative to historical and international norms, with particularly large concentrations of debt in recent entrants to the property market and property investors. These borrowers are exposed to an economic downturn that would cause household incomes to fall, as well as to sharp increases in borrowing costs. These vulnerabilities are amplified by the heightened risk of a fall in house prices. However, house price and credit growth have both eased over the past 12 months, and lending standards have improved, helping to reduce housing lending risk.

Indebtedness remains high in the agriculture sector, particularly for dairy farms. While the sector is currently profitable, commodity prices are volatile and the sector remains vulnerable to another downturn. In addition, there are a number of longer-term challenges facing the sector, including managing the risks of climate change. It remains important for the sector as a whole to continue to repair its balance sheets, to restore resilience to a future downturn and to allow farms to invest to adapt to medium-term challenges.

As a small open economy reliant on foreign funding, New Zealand's economy is exposed to global risks. Following a decade of low interest rates, global debt levels have built up significantly, asset values have become elevated and pricing for risk is low. This leaves markets vulnerable to sudden shifts, for example if interest rates rise suddenly in advanced economies, or if there is a sharp fall in global economic growth due to an escalation in protectionist trade policies. This vulnerability is highlighted by the current elevated price volatility in equity and debt markets. New Zealand's vulnerability to international shocks has improved in recent years, as banks have reduced their reliance on foreign funding, but global risks have increased.

New Zealand's financial system is deeply integrated into New Zealand's economy. As a result, there are strong linkages between developments in the real economy and the performance of the financial system. A significant deterioration in the economy can threaten the resilience of the financial system. Domestic economic developments are transmitted to the financial system primarily through the sectors the financial system lends to, funds from, and insures. This chapter highlights where significant domestic vulnerabilities lie – in the household, agriculture and commercial property sectors.

A prerequisite for a sound insurance sector is that insurers are strongly capitalized to withstand a range of possible loss events. On the whole, New Zealand's insurance sector is profitable and almost all New Zealand insurers are meeting their minimum solvency requirements. However solvency ratios have fallen across the main classes of insurer, indicating a reduction in the sector's capital strength.

The Government is in the process of reviewing the RBNZ Act. A first consultation paper on reforming aspects of the financial policy provisions of the Act was released at the beginning of November 2018. The RBNZ welcomes the review and encourages responses to the consultation. The RBNZ has made progress on a number of other regulatory initiatives, including a new regulatory regime for financial market infrastructures and new standards for mortgage bonds.

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 were as follows:

Name	Age	Position
David Hisco	55	Executive Director and Chief Executive Officer, ANZ New Zealand and Group Executive for Pacific and International Retail and Asia Wealth
John Key	57	Independent Non-Executive Director and Chair, ANZ New Zealand and Independent Non-Executive Director, ANZBGL
Shayne Elliott	54	Non-Executive Director, ANZ New Zealand and Executive Director and Chief Executive Officer, ANZBGL
Michelle Jablko	46	Non-Executive Director, Chief Financial Officer, ANZBGL
Antony Carter	61	Independent Non-Executive Director
Joan Withers	65	Independent Non-Executive Director
Mark Verbiest	60	Independent Non-Executive Director

For the purposes of this Offering Memorandum, the business address of each member of the Board is ANZ Centre, Ground Floor, 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 we do 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.

David Hisco. Mr. Hisco was appointed Director and Chief Executive Officer of ANZ New Zealand on October 13, 2010. Mr. Hisco was also appointed as the Group Executive for Pacific and International Retail and Asia Wealth in February and March 2016. Previously, Mr. Hisco was ANZ Group Managing Director Commercial for Australia based in Melbourne. Mr. Hisco is a member of the ANZBGL Executive Committee. During his 30-year career at ANZ, Mr. Hisco has held a number of senior executive roles in retail and commercial banking, including two years as Managing Director of UDC in New Zealand between 1998 and 2000. Mr. Hisco holds a Bachelor of Business (Accounting) from Deakin University, a Graduate Diploma in Business Administration from Monash University, and an Executive Masters of Business Administration from Monash University (Mt Eliza).

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 Air New Zealand Limited and a member of the BP PLC International Advisory Board. Sir John Key was Prime Minister of New Zealand from 2008 to 2016 and has previously worked for Merrill Lynch and the 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 from June 2009 to March 2012, Chief Executive Officer, Institutional. 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, Chair of the Australian Banking Association and a member of the Business Council of Australia.

Michelle Jablko. Ms. Jablko was appointed a Non-Executive Director of the Board of ANZ New Zealand on March 29, 2018. Ms. Jablko joined ANZBGL as its Chief Financial Officer in July 2016. Prior to joining ANZBGL, Ms Jablko had a 15 year career in investment banking working across different industries, including financial services, providing advice to Australian companies on strategy, capital management and funding, and investor relations. Most recently, Ms. Jablko was the Managing Director and Co-Head of Greenhill Australia. Ms. Jablko also spent almost 15 years at UBS Australia and worked as a lawyer at Allens Linklaters focussed on mergers and acquisitions, banking, tax and finance law. Ms. Jablko graduated with First Class Honours in Law and Honours in Economics from Monash University.

Antony Carter. Mr. Carter was appointed as an independent Non-Executive Director of ANZ New Zealand on August 26, 2011 following the resignation of Dr. Don Brash. 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 Air New Zealand Limited, Blues Management Limited and Fisher & Paykel Healthcare Corporation Limited and a Director of Fletcher Building Industries Limited and Fletcher Building 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 former CEO of Fairfax Media and The Radio Network. Mrs. Withers is also the Chair of Mercury NZ Limited and The Warehouse Group Limited and a Director of On Being Bold 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, Willis Bond General Partner Limited and Willis Bond Capital Partners Limited. Mr. Verbiest is also a Director of Meridian Energy Limited, Bear Fund NZ Limited, MyCare Limited, a member of the New Zealand Treasury Board and acts as an independent consultant to The Treasury.

Remuneration of ANZ New Zealand directors

Our directors were paid an aggregate of $1,106,220, $1,099,257 and $936,638 in directors' fees for the financial years ended September 30, 2018, 2017 and 2016, respectively.

Related party transactions

As permitted under New Zealand law, we extend 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 30 of the 2017 Disclosure Statement.

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 applicable local financial reporting, prudential reporting and audit requirements as well as those 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 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 Jablko.

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 structure of all other classes of persons covered by the ANZ Remuneration Policy.

The current members of the Human Resources Committee are Mrs Withers (Chair), Mr Carter, Mr Verbiest, Sir John Key and Mr Elliott.

Risk Committee — The purpose of the Risk Committee is to:

(a) assist the Board in the effective discharge of its responsibilities for business, market, credit, capital, financial, operational, compliance, liquidity and funding, insurance and reputation risk management;

(b) liaise and consult with the ANZBGL Risk Committee to assist it to discharge its responsibilities;

(c) assist the Board by providing objective non-executive oversight of the implementation by management of ANZ New Zealand's risk and compliance management frameworks and its related operation. 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

(d) oversee compliance with ANZ New Zealand's license obligations under the Financial Markets Conduct Act 2013.

The current members of the Risk Committee are Mr Carter (Chair), Mr Verbiest, Mrs Withers, Sir John Key and Ms Jablko.

Conduct and Culture Committee — The purpose of the Conduct and Culture Committee is to oversee ANZ New Zealand's response, by the end of March 2019, to the recent FMA and RBNZ reports relating to conduct and culture and incentives, and also oversee the implementation of the recommendations in those reports as they relate to ANZ New Zealand. For more information, see "Regulation and Supervision—New Zealand Regulatory Developments—FMA and RBNZ conduct and culture review" and "—FMA review of sales incentives structures in the New Zealand banking industry" on page 54 in this Offering Memorandum.

Following ANZ New Zealand's responses to the FMA and RBNZ reports, the Committee may be terminated, whereby its responsibilities will become requirements of the Board or existing Board committees.

The current members of the Conduct and Culture Committee are Mrs Withers (Chair), Mr Verbiest, Mr Carter and Sir John Key.

Board practices

Currently, our Board consists of seven directors, four of whom are independent non-executive directors. The Board includes one executive of ANZ New Zealand (the Chief Executive) and 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 our 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 Companies Act 1993 of New Zealand, directors must keep the Board advised, on an on-going basis, of any interest that could potentially conflict with our 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 www.companiesoffice.govt.nz/companies/. 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 Companies Act 1993 of New Zealand, 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:

- alter, revoke or adopt a new constitution,
- approve a major transaction, or
- 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 Companies Act 1993 of New Zealand. 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.

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
David Hisco	55	Executive Director and Chief Executive Officer, ANZ New Zealand and Group Executive for Pacific and International Retail and Asia Wealth
Stewart Taylor	45	Chief Financial Officer, ANZ New Zealand
Penny Dell	34	Managing Director of the New Zealand Branch of ANZBGL and Head of Asset and Liability Management, ANZ New Zealand

For purposes of this Offering Memorandum, the business address of each director of the board of directors of ANZNIL is ANZ Centre, Ground Floor, 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 we do not expect any actual conflict of interest would arise.

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 "we", "our" and "us" refer to ANZ New Zealand or ANZNIL, as the applicable Issuer of the debt securities. However, 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 Depositary. 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.

As you read this section, please remember that the specific terms of your Note as described in your Final Terms will supplement the general terms described in this section.

This section is only a summary

The Fiscal Agency Agreement and its associated documents, including your Note and your 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 and your Final Terms summarize all the material terms of the Fiscal Agency Agreement and your Note. They do not, however, describe every aspect of the Fiscal Agency Agreement and your Note. For example, in this section entitled "Description of the Notes and the Guarantee" and your Final Terms, we use terms that have been given special meaning in the Fiscal Agency Agreement, but we describe 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 us such as sending you interest payments and notices.

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

We may issue other series of debt securities

The Fiscal Agency Agreement permits us to issue different series of debt securities from time to time. We may also issue Notes in such amounts, at such times and on such terms as we wish. The Notes will differ from one another, and from other series, in their terms.

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

Amounts that we may issue

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

We intend 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, we may issue additional Notes in amounts that exceed the amount on the cover at any time, without your consent and without notifying you.

Our affiliates may use this Offering Memorandum to resell Notes in market-making transactions from time to time, including both Notes that we have issued before the date of this Offering Memorandum and Notes that we have not yet issued. We describe these transactions under "Notice to Purchasers" and "Plan of Distribution" below.

The Fiscal Agency Agreement and the Notes do not limit our ability to incur other indebtedness or to issue other securities. Also, we are 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, you are one of our unsecured creditors.

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 us 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 your Note is scheduled to become due, as specified in the relevant 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.

We also use the terms "**stated maturity**" and "**maturity date**" to refer to the days when other payments become due. For example, we may refer to a regular interest payment date when an instalment of interest is scheduled to become due as the "stated maturity" of that instalment.

When we refer to the "**stated maturity**" or the "**maturity date**" of a Note without specifying a particular payment, we 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 your Note in cash will be payable in a currency, composite currency, basket of currencies or currency unit or units specified in your Final Terms. We refer to this currency, composite currency, basket of currencies or currency unit or units as a "**Specified Currency**". The Specified Currency for your Note will be U.S. dollars, unless your Final Terms states otherwise. Some Notes may have different Specified Currencies for principal, premium and interest. You will have to pay for your Notes by delivering the requisite amount of the Specified Currency for the principal to any of the Agents that we name in your Final Terms, unless other arrangements have been made between you and us or you and any such Agents. We will make payments on your Notes in the Specified Currency, except as described below in "—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

We 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 described in the relevant 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 relevant 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. We will compute interest on Fixed Rate Notes on the basis of a 360-day year of twelve 30-day months or, if specified in your Final Terms, on the basis of a 365-day year. We 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 in "— 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 yearly rate determined according to the interest rate formula stated in the relevant Final Terms, until the principal is paid or made available for payment or until it is converted or exchanged. We 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

Your Final Terms will describe one or more of the following terms of your Notes:

- the title of your Notes;
- the stated maturity;
- the Specified Currency or currencies for principal, premium and interest, if not U.S. dollars;
- the price at which we originally issue your Note, expressed as a percentage of the principal amount, and the issue date;
- whether your 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 your Note is a Fixed Rate Note, the yearly rate at which your Note will bear interest, if any, and the interest payment dates, if different from those stated below under "— Interest rates — Fixed Rate Notes", and the conditions, if any, under which each Note may convert into or be exchangeable for a Floating Rate Note;

- if your Note is a Floating Rate Note, the interest rate basis, which may be one of the three Base Rates described in "— Interest rates — Floating Rate Notes" below; any applicable index currency or Index Maturity (each, 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 we describe 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 your Note is an Original Issue Discount Note, the yield to maturity;

- if applicable, the circumstances under which your Note may be redeemed at our 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 we describe 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 your Note, if other than DTC, and any circumstances under which the Holder may request Notes in non-global form, if we choose not to issue your 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 your Note.

Form of Notes

We will issue each Note 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. We describe Global Notes below under "Legal Ownership and Book-Entry Issuance".

In addition, we will issue each Note in registered form, without coupons.

Interest rates

This subsection describes the different kinds of interest rates that may apply to your 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 your 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 your 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 we 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 your Final Terms. This yield is calculated as at the Issue Date and on the basis of the issue price.

Floating Rate Notes

In this subsection, we use 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 we define these terms in "— Special rate calculation terms" at the end of this subsection.

For each Floating Rate Note, interest will accrue, and we 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

We currently expect to issue Floating Rate Notes that bear interest at rates based on one or more of the following "Base Rates":

- EURIBOR;
- Federal Funds Rate; and/or
- LIBOR.

We describe each of the Base Rates in further detail below in this subsection.

If you purchase a Floating Rate Note, your Final Terms will specify the type of Base Rate that applies to your Note.

Each Floating Rate Note will be issued as described below. The applicable Note and any relevant 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 relevant Final Terms will also specify the index currency and 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 relevant 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 relevant 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 relevant 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 relevant 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 relevant 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 relevant 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 relevant Final Terms. We will specify the Initial Base Rate in the relevant 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".

If you purchase a Floating Rate Note, your Final Terms will specify whether a Spread or Spread Multiplier will apply to your 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.

If you purchase a Floating Rate Note, your Final Terms will specify whether a maximum rate and/or minimum rate will apply to your 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 relevant Final Terms. The date on which the interest rate resets and the reset rate becomes effective is called the "**Interest Reset Date**". 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 relevant Final Terms; and

- for Floating Rate Notes that reset annually, the third Wednesday of one month of each year as specified in the relevant 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 EURIBOR or 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.

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 relevant Final Terms:

- For all Floating Rate Notes, LIBOR Notes and EURIBOR 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, unless the index currency is pounds sterling, in which case the Interest Determination Date will be the Interest Reset Date. We refer to an Interest Determination Date for a LIBOR Note as a "LIBOR Interest Determination Date".

- For EURIBOR Notes, the Interest Determination Date relating to a particular Interest Reset Date will be the second euro business day preceding the Interest Reset Date. We refer to an Interest Determination Date for a EURIBOR Note as a "EURIBOR 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. Except for LIBOR Notes and EURIBOR Notes, however, the determination of the rate will actually be made on a day no later than the corresponding interest calculation date. The interest calculation date will be the earlier of the following:

- 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 we specify otherwise in the relevant 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 relevant 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 relevant Final Terms; or

- for Floating Rate Notes that reset annually, the third Wednesday of the month specified in the relevant 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 your Final Terms), except that in the case of a LIBOR Note or a EURIBOR Note where that business day falls in the next succeeding calendar month, that interest payment date will be the immediately preceding business day (and Modified Following Business Day Convention will be specified in your 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 we appoint as our agent for this purpose. That institution may include any affiliate of ours, such as ANZBGL. The relevant Final Terms for a particular Floating Rate Note will name the institution that we have appointed to act as the Calculation Agent for that Note as of its issue date. We have initially appointed The Bank of New York Mellon as our Calculation Agent for any Floating Rate Notes. We may appoint a different institution to serve as Calculation Agent from time to time after the issue date of the Note without your consent and without notifying you 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.

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 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.

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 ANZ New Zealand.

Benchmark Replacement. Notwithstanding the provisions in this subsection regarding the calculation of the rate of interest relating to the Floating Rate Notes, if the Issuer (in consultation with the Calculation Agent (or the person specified in the applicable Final Terms as the party responsible for calculating the rate of interest)) determines that a Benchmark Disruption Event has occurred when any rate of interest (or the relevant component part thereof) remains to be determined by reference to such Base Rate affected by the Benchmark Disruption Event, then the following provisions shall apply in determining a "Benchmark Replacement":

(i) the Calculation Agent shall use as the Base Rate for the relevant interest period or interest accrual period a substitute or successor rate that it has determined in its sole discretion, after consulting an Independent Adviser (as defined below) or any other source it deems reasonable, to be (a) the industry-accepted successor rate to the Base Rate or (b) if no such industry-accepted successor rate exists, the most comparable substitute or successor rate to the relevant Base Rate;

(ii) if the Calculation Agent has determined a substitute or successor rate in accordance with the foregoing, the Calculation Agent may determine in its sole discretion, after consulting an Independent Adviser or any other source it deems reasonable, the business day convention, the definitions of business day, relevant Reuters Page, Base Rate, Interest Reset Date and Interest Determination Date and any other relevant methodology for calculating such substitute or successor rate, including any adjustment factor it determines is needed to make such substitute or successor rate comparable to the relevant Base Rate, in a manner that is consistent with industry-accepted practices for such substitute or successor rate; and

(iii) if the Calculation Agent is unable to determine a substitute or successor rate in accordance with subparagraph (i) above, the rate of interest applicable to the next succeeding interest period or interest accrual period (as applicable) shall be the rate of interest determined in relation to the Notes on the previous Interest Determination Date or in effect for the last preceding interest accrual period (after readjustment for any difference between any Spread, Spread Multiplier or maximum rate of interest or minimum rate of interest applicable to the preceding interest accrual period and to the relevant interest accrual period); for the avoidance of doubt, this condition shall apply to the relevant interest period or interest accrual period (as applicable) only and any subsequent interest periods or interest accrual periods (as applicable) are subject to the subsequent operation of, and to adjustment as provided in, this "Benchmark Replacement" subsection.

For the purposes of this "Benchmark Replacement" subsection:

"***Independent Adviser***" means an independent financial institution of international repute or other independent financial adviser with appropriate expertise in the international debt capital markets, in each case appointed by the Issuer at its own expense;

"***Benchmark Disruption Event***" means:

(a) the relevant Base Rate specified in the relevant Final Terms has ceased to be published on the relevant Reuters Page as a result of such benchmark ceasing to be calculated or administered; or

(b) a change in the generally accepted market practice in the international debt capital markets to refer to a Base Rate is endorsed in a public statement by a Relevant Nominating Body, the Bank of England, the FCA or the Prudential Regulation Authority or any relevant committee or other body established, sponsored or approved by any of the foregoing, including the Working Group on Sterling Risk-Free Reference Rates, despite the continued existence of the applicable Base Rate; and

"***Relevant Nominating Body***" means, in respect of a Base Rate:

(a) the central bank for the currency to which the Base Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the Base Rate; or

(b) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (i) the central bank for the currency to which the Base Rate relates, (ii) any central bank or other supervisory authority which is responsible for supervising the administrator of the Base Rate, (iii) a group of the aforementioned central banks or other supervisory authorities, or (iv) the Financial Stability Board or any part thereof.

EURIBOR Notes

If you purchase a EURIBOR Note, your Note will bear interest at a Base Rate equal to the interest rate for deposits in euros designated as EURIBOR and sponsored jointly by the European Banking Federation and ACI-the Financial Market Association (or any company established by the joint sponsors for purposes of compiling and publishing that rate). In addition, the EURIBOR Base Rate will be adjusted by the Spread or Spread Multiplier, if any, specified in the applicable Final Terms. EURIBOR will be determined in the following manner:

- EURIBOR will be the offered rate for deposits in euros having the Index Maturity specified in the applicable Final Terms, beginning on the relevant Interest Reset Date, as that rate appears on Reuters Page EURIBOR01 as of 11:00 A.M., Brussels time, on the relevant EURIBOR Interest Determination Date.

- If the rate described in the prior paragraph does not appear on Reuters Page EURIBOR01, EURIBOR will be determined on the basis of the rates, at approximately 11:00 A.M., Brussels time, on the relevant EURIBOR Interest Determination Date, at which deposits of the following kind are offered to prime banks in the euro-zone interbank market by the principal euro-zone office of each of four major banks in that market selected by the Calculation Agent: euro deposits having the relevant Index Maturity, beginning on the relevant Interest Reset Date, and in a representative amount. The Calculation Agent will request the principal euro-zone office of each of these banks to provide a quotation of its rate. If at least two quotations are provided, EURIBOR for the relevant EURIBOR Interest Determination Date will be the arithmetic mean of the quotations.

- If fewer than two quotations are provided as described in the prior paragraph, EURIBOR for the relevant EURIBOR Interest Determination Date will be the arithmetic mean of the rates for loans of the following kind to leading euro-zone banks quoted, at approximately 11:00 A.M., Brussels time on that EURIBOR Interest Determination Date, by four major banks in the euro-zone selected by the Calculation Agent: loans of euros having the relevant Index Maturity, beginning on the relevant Interest Reset Date, and in a representative amount.

- If fewer than four banks selected by the Calculation Agent are quoting as described in the prior paragraph, EURIBOR for the new interest period will be EURIBOR 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.

Federal Funds Rate Notes

If you purchase a Federal Funds Rate Note, your 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

If you purchase a LIBOR Note, your Note will bear interest at a Base Rate equal to LIBOR for deposits in U.S. dollars or any other index currency, as specified in the applicable Final Terms. 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 the relevant index currency having the relevant Index Maturity beginning on the relevant Interest Reset Date. The applicable Final Terms will indicate the index currency, the Index Maturity, and the Designated LIBOR Page that apply to your LIBOR Note.

- 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 the index currency 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 the index currency 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.

Business Day

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 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;

- if the Note is a EURIBOR Note or has a Specified Currency of euros, or is a LIBOR Note for which the Index Currency is euros, is also a euro business day; and

- solely with respect to any payment or other action to be made or taken at any place of payment designated by us 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.

Special Rate Calculation Terms

In this subsection entitled "-Interest rates", we use several terms that have special meanings relevant to calculating floating interest rates. We describe these terms as follows:

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 the relevant index currency 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.

The term ***"euro-zone"*** means, at any time, the region comprised of the member states of the European Economic and Monetary Union that, as of that time, have adopted a single currency in accordance with the Treaty on EU of February 1992.

"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 currency"*** means, with respect to a LIBOR Note, the currency specified as such in the applicable Final Terms. The index currency may be U.S. dollars or any other currency, and will be U.S. dollars unless another currency is specified in the applicable Final Terms.

The term ***"Index Maturity"*** means, with respect to a Floating Rate Note, the period to maturity of the instrument or obligation on which the interest rate formula is based, as specified in the applicable Final Terms.

"London business day" means any day on which dealings in the relevant index currency are transacted in the London interbank market.

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 capital city of the country to which the relevant index currency, if applicable, relates, except, in each case, with respect to United States dollars, euros, Australian dollars, Canadian dollars, New Zealand dollars, South African rand and Swiss francs, the principal financial center will be The City of New York, London (solely in the case of the relevant LIBOR index currency), Sydney, Toronto, Auckland, Johannesburg and Zurich, respectively.

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 EURIBOR01" means the display on the Reuters Page designated as "EURIBOR01" or any replacement page or pages on which euro-zone interbank rates of major banks for euro are displayed.

"Reuters Page FEDFUNDS1" means the display on the Reuters Page designated as "FEDFUNDS1" or any replacement page or pages.

If, when we use the terms Designated LIBOR Page, H.15, H.15 daily update, Reuters Page EURIBOR01 or Reuters Page FEDFUNDS1, we refer 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

We will make all payments in respect of the Notes to all Holders 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 United Kingdom 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, we 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, we will pay no additional amounts:

- to the extent that the relevant tax is New Zealand tax and is imposed on a Holder who is not a NRWT Holder (as defined herein);
- 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, we 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.

Whenever we refer 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, we mean to include the payment of additional amounts to the extent that, in that context, additional amounts are, were or would be payable.

Redemption and repayment

Your Note will not be entitled to the benefit of any sinking fund, that is, we will not deposit money on a regular basis into any separate custodial account to repay your Note. In addition, we will not be entitled to redeem your Note before its stated maturity unless your Final Terms specifies a redemption commencement date. You will not be entitled to require us to buy your Note from you, before its stated maturity, unless your Final Terms specifies one or more repayment dates.

If your 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 your Note. 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 your Final Terms specify a redemption commencement date, your Note will be redeemable at our option at any time on or after that date or at a specified time or times. If we redeem your Note, we 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 we pay will be the price that applies to the redemption period during which your Note is redeemed.

If your Final Terms specifies a repayment date, your Note 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 we exercise an option to redeem any Note, we 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 we choose 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. We will give the notice in the manner described below in "— 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 you should take care to act promptly enough to ensure that your 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. We or our affiliates may purchase Notes from investors who are willing to sell from time to time in private transactions at negotiated prices. Notes that we or they purchase may, at our discretion, be held, resold or cancelled.

Redemption for taxation reasons

We 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 us 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 our sole judgment has or will cause no adverse effect on us or any of our subsidiaries or affiliates and will involve no material cost, we will pursue that measure in lieu of redemption. We 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 we may only deliver a notice of redemption if our 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 we redeem 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

We and ANZNIL are generally permitted to merge or consolidate with another corporation or other entity. We and ANZNIL are also permitted to sell our assets substantially as an entirety to another corporation or other entity. However, we 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 our 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 United Kingdom, 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 us default notice and for our default having to continue for a specific period of time were disregarded. We describe these matters 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 United Kingdom, 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 United Kingdom). 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 we deliver an officer's certificate and an opinion of counsel to that effect, we will not need to obtain the approval of the holders of the Notes in order to merge or consolidate or to sell our assets. Also, these conditions will apply only if we wish to merge or consolidate with another entity or sell our assets substantially as an entirety to another entity. We will not need to satisfy these conditions if we enter into other types of transactions, including any transaction in which we acquire 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 we do not merge or consolidate and any transaction in which we sell less than substantially all of our assets.

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

Covenant defeasance

We will specify in the relevant Final Terms whether or not the provisions for covenant defeasance described below apply to your Note.

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

- We 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.

- We 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 we may make the above deposit without causing the Holders of Notes to be taxed on the Notes any differently than if we did not make the deposit and just repaid the Notes ourselves.

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 we are a party or by which we are 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.

We 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.

We 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 we accomplish covenant defeasance on your Note, you can still look to us for repayment of your Note in the event of any shortfall in the trust deposit. You should note, however, that if one of the remaining events of default occurred, such as our bankruptcy, and your Note became immediately due and payable, there may be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

Default, remedies and waiver of default

You will have special rights if an Event of Default with respect to your Note occurs and is continuing, as described in this subsection.

Events of Default

When we refer to an Event of Default with respect to the Notes, we mean any of the following:

- we do not pay the principal or any premium on any Note on the due date;
- we do not pay interest on any Note within 30 days after the due date;
- we remain in breach of any covenant we make for the benefit of the relevant Notes, for 60 days after we receive written notice of default stating that we are in breach and requiring us 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 your Note, however, without the approval of the particular 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 we 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 our 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 us 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 us to obtain a waiver of any of our covenants in the Fiscal Agency Agreement. Our covenants include the promises we make about merging, which we describe above under "— Mergers and similar transactions". If the Holders approve a waiver of a covenant, we 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.

We 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 we seek 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, we 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, we 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 we have deposited or set aside, in trust for its Holder, money for its payment or redemption;

- if we have fully defeased it as described above under "— Covenant defeasance"; or

- if we or one of our affiliates, such as ANZBGL, is the owner.

Eligible principal amount of some Notes

In some situations, we 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, we will decide how much principal amount to attribute to the Note as follows:

- for an Original Issue Discount Note, we 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, we will use any amount that we indicate in the relevant 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, we will use the U.S. dollar equivalent, which we 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 we indicate otherwise in your 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. You may not exchange your 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. We have appointed the Fiscal Agent to act as our agent for registering Notes in the names of Holders and transferring and replacing Notes. We may appoint another entity to perform these functions or perform them ourselves.

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 our transfer agent is satisfied with the Holder’s proof of legal ownership. The transfer agent may require an indemnity before replacing any Notes.

If we have designated additional transfer agents for your Note, they will be named in your Final Terms. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any Notes are redeemable and we redeem less than all those Notes, we may block the transfer or exchange of those Notes during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of Holders to prepare the mailing. We may also refuse to register transfers of or exchange any Note selected for redemption, except that we 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, we 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, we 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, we 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 by your Final Terms on the date or dates set forth in your 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 your 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 we will make payments due in U.S. dollars

We 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. We 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, we 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. We will make payments on a Note in non-global, registered form as follows. We 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. We 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 us to do so, we 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 we will make payments due in other currencies

We 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. We 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. We understand that DTC's policies, as currently in effect, are as follows.

If you are an indirect owner of Global Notes denominated in a Specified Currency other than U.S. dollars and if you have the right to elect to receive payments in that other currency and do so elect, you must notify the participant through which your interest in the Global Note is held of your 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.

Your participant must, in turn, notify DTC of your 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 your Note is redeemed or repaid earlier, in the case of a payment of principal or any premium.

DTC, in turn, will notify the Paying Agent of your 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 you or your 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 us and the Paying Agent.

If the foregoing steps are not properly completed, we expect DTC to inform the Paying Agent that payment is to be made in U.S. dollars. In that case, we or our agent will convert the payment to U.S. dollars in the manner described below under "— Conversion to U.S. dollars". We expect that we or our 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, we will make payments on Notes in non-global form in the applicable Specified Currency. We 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 us 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, we 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, we will make the payment in U.S. dollars if the Holder asks us 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 we are 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 we are 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 us due to circumstances beyond our control-such as the imposition of exchange controls or a disruption in the currency markets-we will be entitled to satisfy our 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 we issue a Note in a Specified Currency other than U.S. dollars, we 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 relevant Final Terms. We may select ANZBGL or another of our affiliates to perform this role. We may change the exchange rate agent from time to time after the issue date of the Note without your consent and without notifying you of the change.

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

Additional information about LIBOR and EURIBOR

In July 2017, the United Kingdom's FCA committed to begin planning a transition away from LIBOR to alternative reference rates that are based on actual transactions, such as SONIA (the Sterling Over Night Index Average). The announcement indicates that the continuation of LIBOR in its current form is not guaranteed after 2021. At this time, it is not possible to predict the effect of the FCA announcement, any changes in the methods pursuant to which LIBOR rates are determined and any other reforms to LIBOR, including to the rules promulgated by the FCA in relation thereto, that will be enacted in the United Kingdom and elsewhere. Additionally, EURIBOR and other benchmark indices are the subject of recent national, international and other regulatory guidance and proposals for reform. For more information, see "Risk Factors—Risks relating to the Notes—Uncertainty relating to the LIBOR calculation process, including the potential phasing out of LIBOR after 2021, and proposals to reform EURIBOR and other benchmark indices may adversely affect the value of the Notes".

Payment when offices are closed

If any payment is due on a Note on a day that is not a business day, we 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 EURIBOR Note or a LIBOR 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 advanced to the next preceding day that is a business day. The term business day has a special meaning, which we describe above under "—Interest rates—Floating Rate Notes—Special rate calculation terms".

Paying Agents

We may appoint one or more financial institutions to act as our paying agents, at whose designated offices Notes in non-global entry form may be surrendered for payment at their maturity. We call each of those offices a "Paying Agent". We 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. We may also choose to act as our own Paying Agent. Initially, we have 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 Regulated Market, we will maintain a Paying Agent with offices in the City of London, which we refer to as the "London Paying Agent". We have initially appointed the Fiscal Agent, at its corporate trust office in the City of London, as the London Paying Agent. We must notify the Fiscal Agent of changes in the Paying Agents.

Unclaimed payments

Regardless of who acts as Paying Agent, all money paid by us 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 us. After that two-year period, the Holder may look only to us 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.

Our 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 us and our 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. We 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 our 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.

Legal Ownership and Book-Entry Issuance

In this section, we describe special considerations that will apply to Notes issued in global-i.e., book-entry-form. First we describe the difference between legal ownership and indirect ownership of Notes. Then we describe special provisions that apply to Global Notes.

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. We refer to those who have Notes registered in their own names, on the books that we or the Fiscal Agent or other agent maintain for this purpose, as the "Holders" of those Notes. These persons are the legal Holders of the Notes. We refer to those who, indirectly through others, own beneficial interests in Notes that are not registered in their own names as indirect owners of those Notes. As we discuss 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

We will issue each Note 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, we will recognize only the Depositary as the Holder and we 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, we 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, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the Notes are registered as the Holders and we 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

Our 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 us or any other agent, run only to the Holders of the Notes. We do 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 we are issuing the Notes only in global form.

For example, once we make a payment or give a notice to the Holder, we have 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 we want to obtain the approval of the Holders for any purpose—*e.g.*, to amend the Fiscal Agency Agreement or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of the Fiscal Agency Agreement—we 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.

When we refer to "you" in this Offering Memorandum, we mean those who invest in the Notes being offered by this Offering Memorandum, whether they are the Holders or only indirect owners of those Notes. When we refer to "your Notes" in this Offering Memorandum, we mean the Notes in which you will hold a direct or indirect interest.

Special considerations for indirect owners

If you hold Notes through a bank, broker or other financial institution, either in book-entry form or in street name, you should check with your own institution to find out:

- how it handles securities payments and notices;
- whether it imposes fees or charges;
- whether and how you 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 you can instruct it to send you Notes registered in your own name so you 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?

We will issue each Note in book-entry form only. Each Note issued in book-entry form will be represented by a Global Note that we deposit with and register in the name of one or more financial institutions or clearing systems, or their nominees, which we select. A financial institution or clearing system that we select for any Note for this purpose is called the "Depositary" for that Note. A Note will usually have only one Depositary 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 Depositary or its nominee or a successor to the Depositary or its nominee, unless special termination situations arise. We describe those situations 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 Depositary, 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 Depositary 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 relevant 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. We describe the situations in which this can occur below under "—Holder's option to obtain a non-Global Note; special situations when a Global Note will be terminated". If termination occurs, we may issue the Notes through another book-entry clearing system or 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 Depositary 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 Depositary), as well as general laws relating to securities transfers. We do not recognize this type of investor or any intermediary as a Holder and instead deal only with the Depositary 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 we describe 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 we describe 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 Depositary'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. We and the Fiscal Agent will have no responsibility for any aspect of the Depositary's policies, actions or records of ownership interests in a Global Note. We and the Fiscal Agent also do not supervise the Depositary in any way;

- the Depositary will require that those who purchase and sell interests in a Global Note within its book-entry system use immediately available funds and your broker or bank may require you to do so as well; and

- financial institutions that participate in the Depositary'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 you hold an interest in a Global Note through Euroclear or Clearstream, Luxembourg when DTC is the Depositary, 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. We do not monitor and are 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 we issue any of those Notes in book-entry form but we choose 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 Depositary, 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 you are entitled to request a non-global certificate and wish to do so, you will need to allow sufficient lead time to enable us or our 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. We have described the rights of Holders and street name investors 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 Depositary notifies us that it is unwilling, unable or no longer qualified to continue as Depositary for that Global Note;
- if we notify the Fiscal Agent that we wish 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 Depositary, and not we 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 us 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 us 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 we believe to be reliable, but we take 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 depositary 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 depositary 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. We have no control over those systems or their participants and we 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 Depositary, 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.

Considerations Relating to Notes Denominated or Payable in or Linked to a Non-U.S. dollar Currency

If you 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-you should consult your own financial and legal advisors as to the currency risks entailed by your 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 we 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 us to make payments in U.S. dollars or delay payment if we are 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 our control, we 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 our inability to obtain the other currency because of a disruption in the currency markets. If we made payment in U.S. dollars, the exchange rate we would use would be determined in the manner described above under "Description of the Notes and the Guarantee-Payment mechanics for Notes-How we 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 our 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, we will be entitled to deduct these taxes from any payment on Notes payable in that currency.

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

Except as described above, we 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

Our 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 we issue a non-U.S. dollar Note, we may include in the relevant 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 we may provide will be furnished as a matter of information only, and you 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 you and us, without any liability on the part of the exchange rate agent.

Taxes

The information below summarizes the advice received by the ANZ New Zealand board of directors and 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, United Kingdom 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, United Kingdom 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 we are offering. It applies to you only if you acquire Notes in the offering and you hold your 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 you in light of your 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 you if you are a member of a class of Holders subject to special rules, such as:

- a financial institution,
- a dealer in securities or currencies,
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- a bank,
- a life insurance company,
- a tax-exempt organization,
- a person that owns Notes that are a hedge or that are hedged against interest rate or currency risks,
- a person that owns Notes as part of a straddle or conversion transaction for tax purposes, or
- A person that purchases or sells Notes as part of a wash sale for tax purposes, or
- 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 relevant Final Terms. In addition, this section does not address the United States federal income tax treatment of Notes that reference the performance of United States equities. The United States federal income tax treatment of any such Notes 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.

Please consult your own tax advisor concerning the consequences of owning these Notes in your 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. You are a United States Holder if you are a beneficial owner of a Note and you are, for United States federal income tax purposes:

- a citizen or resident of the United States,

- a domestic corporation (including an entity treated as a domestic corporation for United States federal income tax purposes),

- an estate whose income is subject to United States federal income tax regardless of its source, or

- 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 you are not a United States Holder, this subsection does not apply to you and you should refer to "− Non-United States Holders" below.

Under recently enacted legislation, United States holders that use an accrual method of accounting for tax purposes generally will be required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements. The application of this rule thus may require the accrual of income earlier than would be the case under the general tax rules described below, although the precise application of this rule is unclear at this time. This rule generally will be effective for tax years beginning after December 31, 2017 or, for Notes issued with original issue discount, for tax years beginning after December 31, 2018. In Notice 2018-80, the IRS announced that it intends to issue proposed regulations providing that accrued market discount is not included in income under this new provision. United States holders that use an accrual method of accounting should consult with their tax advisors regarding the potential applicability of this legislation to their particular situation.

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", you will be taxed on any interest on your Note, whether payable in U.S. dollars or a foreign currency, including a composite currency or basket of currencies, as ordinary income at the time you receive the interest or when it accrues, depending on your method of accounting for United States tax purposes.

Interest paid by us 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.

Foreign Currency Notes – Cash basis taxpayers. If you are a taxpayer that uses the cash receipts and disbursements method of accounting for tax purposes and you receive an interest payment that is denominated in, or determined by reference to, a foreign currency, you 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 you actually convert the payment into U.S. dollars.

Foreign Currency Notes – Accrual basis taxpayers. If you are a taxpayer that uses an accrual method of accounting for tax purposes, you may determine the amount of income that you recognize with respect to an interest payment denominated in, or determined by reference to, a foreign currency by using one of two methods. Under the first method, you 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 you elect the second method, you 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 you receive a payment of interest within five business days of the last day of your accrual period or taxable year, you may instead translate the interest accrued into U.S. dollars at the exchange rate in effect on the day that you actually receive the interest payment. If you elect the second method it will apply to all debt instruments that you hold at the beginning of the first taxable year to which the election applies and to all debt instruments that you subsequently acquire. You may not revoke this election without the consent of the IRS.

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

Original issue discount

General. If you own 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 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, your 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 ¼ of 1% of its stated redemption price at maturity multiplied by the number of complete years to its maturity. Your Note will have *de minimis* original issue discount if the amount of the excess is less than the *de minimis* amount. If your Note has *de minimis* original issue discount, you must include the *de minimis* amount in income as stated principal payments are made on the Note, unless you make the election described below under "−Election to treat all interest as original issue discount". You can determine the includible amount with respect to each such payment by multiplying the total amount of your Note's *de minimis* original issue discount by a fraction equal to:

- the amount of the principal payment made

divided by:

- the stated principal amount of the Note.

Generally, if your discount Note matures more than one year from its date of issue, you must include original issue discount, or "OID", in income before you receive cash attributable to that income. The amount of OID that you must include in income is calculated using a constant-yield method, and generally you will include increasingly greater amounts of OID in income over the life of your Note. More specifically, you can calculate the amount of OID that you must include in income by adding the daily portions of OID with respect to your discount Note for each day during the taxable year or portion of the taxable year that you hold your discount Note. You 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. You may select an accrual period of any length with respect to your discount Note and you may vary the length of each accrual period over the term of your 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.

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

- multiplying your discount Note's adjusted issue price at the beginning of the accrual period by your Note's yield to maturity, and then

- subtracting from this figure the sum of the payments of qualified stated interest on your Note allocable to the accrual period.

You 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, you determine your discount Note's adjusted issue price at the beginning of any accrual period by:

- adding your discount Note's issue price and any accrued OID for each prior accrual period, and then

- subtracting any payments previously made on your discount Note that were not qualified stated interest payments.

If an interval between payments of qualified stated interest on your discount Note contains more than one accrual period, then, when you determine the amount of OID allocable to an accrual period, you 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, you 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. You 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:

- the amount payable at the maturity of your Note, other than any payment of qualified stated interest, and

- your Note's adjusted issue price as of the beginning of the final accrual period.

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

- the excess of your adjusted basis in the Note immediately after purchase over the adjusted issue price of the Note

divided by:

- 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 your Note by the amount of pre-issuance accrued interest if:

- a portion of the initial purchase price of your Note is attributable to pre-issuance accrued interest,

- the first stated interest payment on your Note is to be made within one year of your Note's issue date, and

- 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 your Note.

Notes subject to contingencies including optional redemption. Your 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, you must determine the yield and maturity of your Note by assuming that the payments will be made according to the payment schedule most likely to occur if:

- the timing and amounts of the payments that comprise each payment schedule are known as of the issue date and

- 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, you must include income on your Note in accordance with the general rules that govern contingent payment obligations.

Notwithstanding the general rules for determining yield and maturity, if your Note is subject to contingencies, and either you or we 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:

- in the case of an option or options that we may exercise, we will be deemed to exercise or not exercise an option or combination of options in the manner that minimizes the yield on your Note, and

- in the case of an option or options that you may exercise, you will be deemed to exercise or not exercise an option or combination of options in the manner that maximizes the yield on your Note.

If both you and we hold options described in the preceding sentence, those rules will apply to each option in the order in which they may be exercised. You may determine the yield on your Note for the purposes of those calculations by using any date on which your Note may be redeemed or repurchased as the maturity date and the amount payable on the date that you chose in accordance with the terms of your 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 your Note is repaid as a result of this change in circumstances and solely to determine the amount and accrual of OID, you must redetermine the yield and maturity of your Note by treating your Note as having been retired and reissued on the date of the change in circumstances for an amount equal to your Note's adjusted issue price on that date.

Election to treat all interest as original issue discount. You may elect to include in gross income all interest that accrues on your 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 you make this election for your Note, then, when you apply the constant-yield method:

- the issue price of your Note will equal your cost,
- the issue date of your Note will be the date you acquired it, and
- no payments on your Note will be treated as payments of qualified stated interest.

Generally, this election will apply only to the Note for which you make it; however, if the Note has amortizable bond premium, you 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 you hold as of the beginning of the taxable year to which the election applies or thereafter. Additionally, if you make this election for a market discount Note, you 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 you acquire on or after the first day of the first taxable year to which the election applies. You 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. Your Note will be a variable rate note if:

- your Note's issue price does not exceed the total noncontingent principal payments by more than the lesser of:
    1. .015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date, or
    2. 15% of the total noncontingent principal payments; and
- your 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
- the value of any variable rate on any date during the term of your 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.

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

- 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 your Note is denominated; or

- 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 your 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.

Your 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.

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

- the rate is not a qualified floating rate, and

- 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.

Your 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 your Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of your Note's term.

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

- the rate is equal to a fixed rate minus a qualified floating rate and

- the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the cost of newly borrowed funds.

Your Note will also have a single qualified floating rate or an objective rate if interest on your 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:

- 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

- the value of the qualified floating rate or objective rate is intended to approximate the fixed rate.

In general, if your 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 your 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 your Note.

If your 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, you generally must determine the interest and OID accruals on your Note by:

- determining a fixed rate substitute for each variable rate provided under your variable rate Note,

- constructing the equivalent fixed rate debt instrument, using the fixed rate substitute described above,

- determining the amount of qualified stated interest and OID with respect to the equivalent fixed rate debt instrument, and

- adjusting for actual variable rates during the applicable accrual period.

When you determine the fixed rate substitute for each variable rate provided under the variable rate Note, you 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 your Note.

If your 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, you generally must determine interest and OID accruals by using the method described in the previous paragraph. However, your variable rate Note will be treated, for purposes of the first three steps of the determination, as if your 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 your 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 you are 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), you are not required to accrue OID, as specially defined below for the purposes of this paragraph, for United States federal income tax purposes unless you elect to do so (although it is possible that you may be required to include any stated interest in income as you receive it). If you are 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, you 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 you are not required and do not elect to include OID in income currently, any gain you realize on the sale or retirement of your short-term Note will be ordinary income to the extent of the accrued OID, which will be determined on a straight-line basis unless you make an election to accrue the OID under the constant-yield method, through the date of sale or retirement. However, if you are not required and do not elect to accrue OID on your short-term Notes, you will be required to defer deductions for interest on borrowings allocable to your short-term Notes in an amount not exceeding the deferred income until the deferred income is realized.

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

Foreign currency discount Notes. If your discount Note is denominated in, or determined by reference to, a foreign currency, you must determine OID for any accrual period on your discount Note in the foreign 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”. You may recognize ordinary income or loss when you receive an amount attributable to OID in connection with a payment of interest or the sale or retirement of your Note.

Market discount

You will be treated as if you purchased your Note, other than a short-term Note, at a market discount, and your Note will be a market discount Note if:

- you purchase your Note for less than its issue price as determined above under “− Original issue discount − General” and

- 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 you paid for your Note is equal to or greater than 1/4 of 1% of your 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 your Note for these purposes, you generally add any OID that has accrued on your Note to its issue price.

If your Note’s stated redemption price at maturity or, in the case of a discount Note, its revised issue price, exceeds the price you paid for the Note by less than 1/4 of 1% of your 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 to you.

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

You will accrue market discount on your market discount Note on a straight-line basis unless you elect to accrue market discount using a constant-yield method. If you make this election, it will apply only to the Note with respect to which it is made and you may not revoke it.

Notes purchased at a premium

If you purchase your 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)), you may elect to treat the excess as amortizable bond premium. If you make this election, you will reduce the amount required to be included in your income each accrual period with respect to interest on your Note by the amount of amortizable bond premium allocable to that accrual period, based on your Note's yield to maturity. If your Note is denominated in, or determined by reference to, a foreign currency, you will compute your amortizable bond premium in units of the foreign currency and your amortizable bond premium will reduce your interest income in units of the foreign currency. Gain or loss recognized that is attributable to changes in exchange rates between the time your amortized bond premium offsets interest income and the time of the acquisition of your Note is generally taxable as ordinary income or loss. If you make 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 you hold at the beginning of the first taxable year to which the election applies or that you thereafter acquire, and you may not revoke it without the consent of the IRS. See also "−Original issue discount−Election to treat all interest as original issue discount".

If the amortizable bond premium allocable to an accrual period exceeds your interest income from the Notes for such accrual period, such excess is first allowed as a deduction to the extent of interest included in your income in respect of the Notes in previous accrual periods and is then carried forward to your 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 your interest income for such accrual period, you would be allowed an ordinary deduction equal to such excess.

Purchase, sale and retirement of the Notes

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

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

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

You will generally recognize gain or loss on the sale or retirement of your Note equal to the difference between the amount you realize on the sale or retirement, excluding any amounts attributable to accrued but unpaid interest (which will be treated as interest payments) and your adjusted tax basis in your Note. If your Note is sold or retired for an amount in foreign currency, the amount you realize 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 foreign currency on the settlement date of the sale.

You will recognize capital gain or loss when you sell or retire your Note, except to the extent:

- described above under "− Original issue discount-Short-term Notes" or "− Market discount",
- attributable to accrued but unpaid interest, or
- attributable to changes in exchange rates as described below.

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

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

Exchange of amounts in other than U.S. dollars

If you receive foreign currency as interest on your Note or on the sale or retirement of your Note, your tax basis in the foreign currency will equal its U.S. dollar value when the interest is received or at the time of the sale or retirement. If you purchase foreign currency, you generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of your purchase. If you sell or dispose of a foreign currency, including if you use it to purchase Notes or exchange it for U.S. dollars, any gain or loss recognized generally will be ordinary income or loss.

Contingent Payment Obligations

The relevant 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 foreign 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. You should consult with your 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

Certain non-U.S. financial institutions must comply with information reporting requirements or certification requirements in respect of their direct and indirect United States shareholders and/or United States accountholders to avoid becoming subject to withholding on certain payments, either by reporting such information directly to the IRS or, in some cases, such as in the case of New Zealand institutions and branches, by reporting such information to their local revenue authority for it to forward to the IRS. The Issuers and other non-U.S. financial institutions may accordingly be required to report information regarding the Holder of Notes and to withhold on a portion of payments under the Notes to certain Holders that fail to comply with the relevant information reporting requirements (or hold Notes directly or indirectly through certain non-compliant intermediaries). However, such withholding would only apply to Notes issued at least six months after the date on which final regulations implementing such rules are enacted. Holders are urged to consult their own tax advisors and any banks or brokers through which they will hold Notes as to the consequences (if any) of these rules to them.

Non-United States Holders

This subsection describes the tax consequences to a Non-United States Holder. You are a Non-United States Holder if you are a beneficial owner of a Note and you are, for United States federal income tax purposes:

- a nonresident alien individual,
- a foreign corporation, or
- 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 you are a United States Holder, this subsection does not apply to you.

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

- you are an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the Code, or
- you both
  - have an office or other fixed place of business in the United States to which the interest is attributable and
  - derive 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 you are a Non-United States Holder of a Note, you generally will not be subject to United States federal income tax on gain realized on the sale, exchange or retirement of a Note unless:

- the gain is effectively connected with your conduct of a trade or business in the United States or
- you are an individual, you are 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 you are a noncorporate United States Holder, we and other payors are required to report to the IRS all payments of principal, any premium and interest on your Note within the United States. Information reporting may also apply in respect of any OID that accrues on a discount Note. In addition, we and other payors are required to report to the IRS any payment of proceeds of the sale of your Note before maturity within the United States. Additionally, backup withholding would apply to any payments if you fail to provide an accurate taxpayer identification number, or (in the case of interest payments) you are notified by the IRS that you have failed to report all interest and dividends required to be shown on your federal income tax returns.

If you are a Non-United States Holder, you are generally exempt from backup withholding and information reporting requirements with respect to payments of principal and interest made to you outside the United States by us or another non-United States payor. You are 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 you are a United States person and you have 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) you otherwise establish 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:

(i) the broker has certain connections to the United States,

(ii) the proceeds or confirmation are transferred or mailed to an account or address maintained by you in the United States, or

(iii) 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 you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption.

In addition, certain foreign brokers may be required to report the amount of gross proceeds from the sale or other disposition of Notes under FATCA if you are, or are presumed to be, a United States person.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your 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:

- associated;
- fixed establishment;
- registered bank; and
- 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 per cent. 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 hold a valid certificate of exemption for New Zealand resident withholding tax purposes.

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.

United Kingdom taxation

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes and the United Kingdom 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 United Kingdom 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 relevant 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 United Kingdom 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 United Kingdom 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 United Kingdom.

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 United Kingdom income tax except in circumstances where such interest has a United Kingdom source ("**UK Interest**"). Interest on Notes may have a United Kingdom source where, for example, the Notes are issued by an Issuer acting through a branch or permanent establishment in the United Kingdom, the notes are secured on assets situated in the United Kingdom or the interest is paid out of funds maintained in the United Kingdom. Notes which carry a right to UK Interest are referred to in this United Kingdom 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 a multilateral trading facility (within the meaning of Article 4.1.22 of Directive 2014/65/EU) operated by an EEA regulated recognized stock exchange. 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 United Kingdom income tax.

In all cases falling outside the exemptions described above, interest on UK Notes may fall to be paid under deduction of United Kingdom 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 United Kingdom 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 in "UK withholding tax on UK source interest".

Other rules relating to United Kingdom 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 United Kingdom practice, be treated as interest for United Kingdom withholding tax purposes. On that basis, discounts will not be subject to any United Kingdom withholding tax, pursuant to the provisions mentioned above in "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 United Kingdom tax purposes. If so, such payments of interest are subject to United Kingdom withholding tax in the same circumstances and subject to the same exemptions as are outlined above.

Where interest has been paid under deduction of United Kingdom income tax, Holders who are not resident in the United Kingdom 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 United Kingdom taxation section mean "interest" as understood in United Kingdom 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 United Kingdom 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 United Kingdom. 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 United Kingdom), no stamp duty reserve tax arises on any agreement to transfer such Notes unless the Notes give the Noteholders 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 United Kingdom incorporated company; (ii) which are registered in a register kept in the United Kingdom; or (iii) are shares and are "paired" (as defined in section 99(6B) of the Finance Act 1986) with shares issued by a United Kingdom incorporated company.

General

Neither ANZ New Zealand nor ANZNIL nor any of the Agents makes any comment about the treatment for taxation purposes of payment 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.

Employee Retirement Income Security Act

A fiduciary of a pension, profit-sharing or other employee benefit plan (a "**plan**") subject to the U.S. Employee Retirement Income Security Act of 1974, as amended ("**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 of the Notes by a plan with respect to which we or certain of our 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 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 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 five 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 are:

- 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.

If you are an insurance company or the fiduciary of a pension plan or an employee benefit plan, and propose to invest in Notes, you should consult your legal counsel.

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., Citigroup Global Markets Inc., Deutsche Bank Securities Inc., Goldman Sachs & Co. LLC, HSBC Securities (USA) Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, 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 relevant 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 relevant 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 in compliance with all laws.

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 us 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 our 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 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).

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.

Hong Kong

(a) The Notes may not be offered or sold in the Hong Kong Special Administrative Region of the People's Republic of China ("**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 under the SFO; 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 "**Companies Ordinance**") or which do not constitute an offer to the public within the meaning of the Companies Ordinance; and

(b) no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose 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 under the SFO.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) (the "**FIEL**"), and each Agent will be deemed to represent and agree that it has not offered or sold directly or indirectly, and agrees not to offer or sell the Notes, directly or indirectly, in Japan or to, or for the account or benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, a Japanese Person, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and other applicable laws, regulations and ministerial guidelines promulgates by the relevant Japanese governmental or regulatory authorities in effect at the relevant time. For the purpose of this paragraph "**Japanese Person**" means any person resident in Japan, including any corporation or other entity incorporated or 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 hold a valid certificate of exemption for New Zealand resident withholding tax purposes 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).

People's Republic of China (excluding Hong Kong, Macau and Taiwan)

The Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China, or the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by all relevant laws and regulations of the PRC.

This Offering Memorandum (i) has not been filed with or approved by the PRC authorities and (ii) does not constitute an offer to sell, or the solicitation of an offer to buy, any Notes in the PRC to any person to whom it is unlawful to make the offer of solicitation in the PRC.

The Notes may not be offered, sold or delivered, or offered, sold or delivered to any person for reoffering or resale or redelivery, in any such case directly or indirectly (i) by means of any advertisement, invitation, document or activity which is directed at, or the contents of which are likely to be accessed or read by, the public in the PRC, or (ii) to any person within the PRC, other than in full compliance with the relevant laws and regulations of the PRC.

Investors in the PRC are responsible for obtaining all relevant government regulatory approvals/licenses, verification and/or registrations themselves, including, but not limited to, those which may be required by the China Securities Regulatory Commission, the State Administration of Foreign Exchange and/or the China Banking Regulatory Commission, and complying with all relevant PRC laws and regulations, including, but not limited to, all relevant foreign exchange regulations and/or securities investment regulations.

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.

Republic of Korea

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act and the decrees and regulations thereunder (the "**FSCMA**") and the Notes have been and will be offered in Korea as a private placement under the FSCMA. None of the Notes may be offered, sold and delivered directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except as otherwise permitted under the applicable laws and regulations of Korea, including the FSCMA and the Foreign Exchange Transaction Law of Korea and the decrees and regulations thereunder (the "**FETL**"). For a period of one year from the issue date of the Notes, any acquirer of the Notes who was solicited to buy the Notes in Korea is prohibited from transferring any of the Notes to another person in any way other than as a whole to one transferee. Furthermore, the purchaser of the Notes shall comply with all applicable regulatory requirements (including but not limited to requirements under the FETL) in connection with the purchase of the Notes.

Singapore

This Offering Memorandum has not been registered as a prospectus under the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**") by the MAS, and the offer of the Notes in Singapore is made primarily pursuant to the exemptions under Section 274 and 275 of the SFA. 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 (an "**Institutional Investor**") pursuant to Section 274 of the SFA, (ii) to an accredited investor as defined in Section 4A of the SFA (an "**Accredited Investor**") or other relevant person as defined in Section 275(2) of the SFA (a "**Relevant Person**") and pursuant to Section 275(1) of the SFA, or to any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with, the conditions of any other applicable exemption or provision of the SFA.

It is a condition of the offer that where the Notes are subscribed for or acquired pursuant to an offer made in reliance on Section 275 of the SFA by a Relevant Person which is:

(a) a corporation (which is not an Accredited Investor) 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), the sole purpose of which is to hold investments and each beneficiary of the trust is an individual who is an Accredited Investor,

securities or securities-based derivatives contracts (each 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 except:

(i) to an Institutional Investor, an Accredited Investor, a Relevant Person, or which arises from an offer referred to in Section 275(1A) of the SFA or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the SFA.

Switzerland

This Offering Memorandum does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the Notes will not be listed on the SIX Swiss Exchange. Therefore, this Offering Memorandum may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the Notes may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the Notes with a view to distribution. Any such investors will be individually approached by the Agents from time to time.

Taiwan

The Notes have not been, and will not be, registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan, the Republic of China ("**Taiwan**") and/or other regulatory authority of Taiwan pursuant to applicable securities laws and regulations and may not be sold, issued or offered within the Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Taiwan Securities and Exchange Act or relevant laws and regulations that requires a registration, filing or approval of the Financial Supervisory Commission of Taiwan and/or other regulatory authority of the Taiwan. No person or entity in Taiwan is authorized to offer, sell or distribute or otherwise intermediate the offering of the Notes or the provision of information relating to this Offering Memorandum.

The Notes may be made available to Taiwan resident investors outside Taiwan for purchase by such investors outside Taiwan for purchase outside Taiwan by investors residing in Taiwan, but may not be issued, offered sold or resold in Taiwan, unless otherwise permitted by Taiwan laws and regulations. No subscription or other offer to purchase the Notes shall be binding on us until received and accepted by us or any Agent outside of Taiwan (the "**Place of Acceptance**"), and the purchase/sale contract arising therefrom shall be deemed a contract entered into in the Place of Acceptance.

United Kingdom

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 United Kingdom.

Legal Matters

The validity of the Notes under New York law will be passed upon for us by our 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 us by our 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.

Independent Auditors

The consolidated financial statements of ANZ Bank New Zealand Limited and its subsidiaries as at September 30, 2018, and September 30, 2017, and for each of the financial years then ended have been audited by KPMG, independent accountants, as stated in their reports appearing herein.

The financial statements of ANZ New Zealand (Int'l) Limited as at September 30, 2018, and September 30, 2017, and for each of the financial years then ended have been audited by KPMG, independent accountants, as stated in their reports appearing herein.

General Information

1. The admission of the program to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange's Regulated Market is expected to take effect on or about December 7, 2018. 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 UK Listing Authority and admitted to trading on the London Stock Exchange's Regulated Market will be admitted to listing and trading upon submission to the UK Listing Authority and the London Stock Exchange of the relevant Final Terms and any other information required by the UK Listing Authority 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. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either Issuer is aware) during the last 12 months which may have, or have had in the recent past, significant effects on the financial position or profitability of each Issuer and, in the case of ANZ New Zealand, its subsidiaries taken as a whole.

3. Since September 30, 2018, there has been no material adverse change in the prospects of each Issuer and, in the case of ANZ New Zealand, its subsidiaries taken as a whole and the ANZ New Zealand Group. Since September 30, 2018, there has been no significant change in the financial or trading position of the ANZ New Zealand Group and ANZNIL.

4. There are no material contracts having been 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 Noteholders 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, the London Paying Agent and the relevant Issuer:

    (i) the constitutive documents of the relevant Issuer;

    (ii) the Fiscal Agency Agreement;

    (iii) the Guarantee;

    (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, 2018, and 2017, 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, 2018, and 2017, including copies of the report of the independent auditor thereon.

6. The price and amount of Notes to be issued under the 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 the 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.

Annex A-ANZ New Zealand Financial Statements

Contents

ANZ BANK NEW ZEALAND LIMITED
ANNUAL REPORT AND REGISTERED BANK DISCLOSURE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2018
NUMBER 90 | ISSUED NOVEMBER 2018

CONTENTS

ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2018

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 2018 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
15 November 2018

David Hisco
Executive Director
15 November 2018

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.

FINANCIAL STATEMENTS

In 2018, we have redesigned our Financial Statements to better communicate our performance to stakeholders by reducing complexity and simplifying our financial note disclosures.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

INCOME STATEMENT

For the year ended 30 September	Note	2018 NZ$m	2017 NZ$m
Interest income		6,390	6,198
Interest expense		(3,240)	(3,161)
Net interest income	2	3,150	3,037
Other operating income	2	716	604
Net funds management and insurance income	2	405	329
Share of associates' profit	2	5	5
Operating income		4,276	3,975
Operating expenses	3	(1,517)	(1,468)
Profit before credit impairment and income tax		2,759	2,507
Credit impairment charge	12	(55)	(62)
Profit before income tax		2,704	2,445
Income tax expense	4	(751)	(680)
Profit for the year		1,953	1,765

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2018 NZ$m	2017 NZ$m
Profit for the year	1,953	1,765
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	1	15
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised losses recognised directly in equity	(27)	(32)
Realised losses transferred to the income statement	5	12
Income tax attributable to the above items	7	6
Other comprehensive income after tax	(14)	1
Total comprehensive income for the year	1,939	1,766

The notes appearing on pages 8 to 56 form an integral part of these financial statements

BALANCE SHEET

As at 30 September	Note	2018 NZ$m	2017 NZ$m
Assets			
Cash and cash equivalents	7	2,200	2,338
Settlement balances owed to the Banking Group		656	536
Collateral paid		1,919	1,415
Trading securities	8	8,024	7,663
Derivative financial instruments	9	8,086	9,878
Available-for-sale assets	10	6,502	6,360
Net loans and advances	11	126,466	117,627
Assets held for sale	25	897	3,065
Life insurance contract assets		-	636
Investments in associates		6	7
Goodwill and other intangible assets	19	3,289	3,275
Investments backing insurance contract liabilities		-	123
Premises and equipment		325	367
Other assets		642	683
Total assets		159,012	153,973
Liabilities			
Settlement balances owed by the Banking Group		2,161	1,840
Collateral received		845	613
Deposits and other borrowings	13	108,008	101,657
Derivative financial instruments	9	8,095	9,826
Current tax liabilities		161	39
Deferred tax liabilities		21	187
Liabilities held for sale	25	334	1,088
Payables and other liabilities		947	1,151
Employee entitlements		120	119
Other provisions		76	66
Debt issuances	14	25,135	24,606
Total liabilities		145,903	141,192
Net assets		13,109	12,781
Equity			
Share capital	20	11,888	8,888
Reserves		33	48
Retained earnings		1,188	3,845
Total equity		13,109	12,781

For and on behalf of the Board of Directors:

Rt Hon Sir John Key, GNZM AC
Chair
15 November 2018

David Hisco
Executive Director
15 November 2018

The notes appearing on pages 8 to 56 form an integral part of these financial statements

FINANCIAL STATEMENTS

CASH FLOW STATEMENT

For the year ended 30 September	2018 NZ$m	2017 NZ$m
Profit after income tax	1,953	1,765
Adjustments to reconcile to net cash provided by/(used in) operating activities:		
Depreciation and amortisation	88	80
Loss on sale of premises and equipment	4	2
Impairment of goodwill	-	3
Net derivatives/foreign exchange adjustment	1,150	(662)
Other non-cash movements	(22)	88
Net (increase)/decrease in operating assets:		
Collateral paid	(504)	895
Trading securities	(361)	4,316
Net loans and advances	(5,927)	(5,916)
Other assets	(266)	(27)
Net increase in operating liabilities:		
Deposits and other borrowings	5,312	3,630
Settlement balances owed by the Banking Group	390	4
Collateral received	232	84
Other liabilities	48	120
Total adjustments	144	2,617
Net cash flows provided by operating activities[1]	2,097	4,382
Cash flows from investing activities		
Available-for-sale assets:[2]		
Purchases	(4,368)	(10,803)
Proceeds from sale or maturity	4,246	7,266
Other assets	3	(49)
Net cash flows used in investing activities	(119)	(3,586)
Cash flows from financing activities		
Debt issuances[3]		
Issue proceeds	3,385	4,922
Redemptions	(3,991)	(3,899)
Proceeds from issue of ordinary shares	3,000	-
Dividends paid	(4,611)	(1,695)
Net cash flows used in financing activities	(2,217)	(672)
Net increase / (decrease) in cash and cash equivalents	(239)	124
Cash and cash equivalents at beginning of year	2,439	2,315
Cash and cash equivalents at end of year	2,200	2,439

1 Net cash provided by operating activities includes income taxes paid of NZ$619 million (2017: NZ$605 million).

2 We have reassessed the composition of operating, investing and financing cash flows. Cash flows from available-for-sale assets were previously included in operating activities, and comparative amounts have been reclassified.

3 Movement in debt issuances (Note 14) also includes an NZ$1,365 million increase (2017: NZ$510 million increase) from the effect of foreign exchange rates, a NZ$246 million decrease (2017: NZ$247 million decrease) from changes in fair value hedging instruments and a NZ$16 million increase (2017: NZ$24 million increase) of other changes.

The notes appearing on pages 8 to 56 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital NZ$m	Available-for-sale revaluation reserve NZ$m	Cash flow hedging reserve NZ$m	Retained earnings NZ$m	Total equity NZ$m
As at 1 October 2016		8,888	-	62	3,760	12,710
Profit or loss		-	-	-	1,765	1,765
Unrealised gains / (losses) recognised directly in equity		-	7	(39)	-	(32)
Realised losses transferred to the income statement		-	-	12	-	12
Actuarial gain on defined benefit schemes		-	-	-	21	21
Income tax credit / (expense) on items recognised directly in equity		-	(2)	8	(6)	-
Total comprehensive income for the year		-	5	(19)	1,780	1,766
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary dividends paid	5	-	-	-	(1,684)	(1,684)
Preference dividends paid	20	-	-	-	(11)	(11)
Transactions with Immediate Parent Company in its capacity as owner		-	-	-	(1,695)	(1,695)
As at 30 September 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	20	3,000	-	-	-	3,000
Ordinary dividends paid	5	-	-	-	(4,600)	(4,600)
Preference dividends paid	20	-	-	-	(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

The notes appearing on pages 8 to 56 form an integral part of these financial statements

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 2018. 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 15 November 2018, the Directors resolved to authorise the issue of these financial statements.

In 2018, we reviewed the content and structure of the financial statements with the aim of increasing their relevance to stakeholders. This review has resulted in a number of changes to the financial statements from previous years, including:

- moving disclosures required by the Order to a separate 'Registered Bank Disclosures' section of the Disclosure Statement;
- information about the Banking Group's recognition and measurement policies and key judgements and estimates has been relocated and is now disclosed within the relevant notes to the financial statements;
- removing immaterial disclosures; and
- aggregating prior year numbers in certain disclosures.

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 dollar amount is significant in size (quantitative factor);
- the dollar amount 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); and
- 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 financial statement disclosure requirements.

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, 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 the following assets and liabilities which we have stated at their fair value:

- derivative financial instruments;
- available-for-sale financial assets;
- financial instruments held for trading; and
- financial instruments designated 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 available-for-sale financial assets in the available-for-sale 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 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.

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 2018, and have not been applied by the Banking Group in preparing these financial statements.

The Banking Group has identified three standards where this applies to the Banking Group and further details are set out below.

NZ IFRS 9 Financial Instruments **(NZ IFRS 9)**
NZ IFRS 9 is effective for the Banking Group from 1 October 2018. NZ IFRS 9 stipulates 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 and estimated impacts on the Banking Group are outlined below.

Impairment
NZ IFRS 9 replaces the incurred loss impairment model under NZ IAS 39: *Financial Instruments: Recognition and Measurement* (NZ IAS 39) with an expected credit loss (ECL) model incorporating forward looking information. The ECL model will be applied to all financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, certain loan commitments and financial guarantees. Under the ECL model, the following three-stage approach is applied to measuring ECL based on credit migration between the stages since origination:

- Stage 1: At the origination of a financial asset, a provision equivalent to 12 months ECL is recognised.
- Stage 2: Where there has been a significant increase in credit risk since origination, a provision equivalent to lifetime ECL is recognised.
- Stage 3: Similar to the current NZ IAS 39 requirements for individual impairment provisions, lifetime ECL is recognised for loans where there is objective evidence of impairment.

Expected credit losses are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Classification and measurement
There are three measurement classifications under NZ IFRS 9: Amortised cost, Fair Value through Profit or Loss and Fair Value through Other Comprehensive Income. Financial assets are classified into these measurement classifications taking into account the business model within which they are managed, and their contractual cash flow characteristics.

The classification and measurement requirements for financial liabilities under NZ IFRS 9 are largely consistent with NZ IAS 39 with the exception that for financial liabilities 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. This part of the standard was early adopted by the Banking Group on 1 October 2013.

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 International Accounting Standards Board's ongoing project on macro hedge accounting is completed. The Banking Group's current expectation is that it will continue to apply the hedge accounting requirements of NZ IAS 39.

Transition to NZ IFRS 9
Other than as noted above under classification and measurement of financial liabilities, NZ IFRS 9 has a date of initial application for the Banking Group of 1 October 2018. The classification and measurement, and impairment requirements, will be applied retrospectively by adjusting opening retained earnings at 1 October 2018. The Banking Group does not intend to restate comparatives.

Impact
Impairment
Based on the portfolio of in-scope financial assets held as at 30 September 2018, economic conditions prevailing at that time and management's judgements and estimates, the application of NZ IFRS 9 as at 1 October 2018 has resulted in higher aggregate impairment provisions of approximately NZ$72 million, with an associated decrease in deferred tax liabilities of approximately NZ$20 million. The net impact on total equity is a reduction of approximately NZ$52 million. These estimates remain subject to change until the Banking Group finalises its financial statements for the year ending 30 September 2019.

Classification and measurement of financial assets
There have been no changes in classification and measurement as a result of the application of the business model and contractual cash flow characteristics tests.

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

NZ IFRS 15 Revenue from Contracts with Customers (NZ IFRS 15)
NZ IFRS 15 is effective for the Banking Group from 1 October 2018 and replaces existing guidance on the recognition of revenue from contracts with customers. 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 NZIFRS 15 is immaterial given the majority of the Banking Group revenues are outside the scope of the standard. The Banking Group will adopt IFRS 15 retrospectively including restatement of prior period comparatives.

NZ IFRS 16 Leases (NZ IFRS 16)
The final version of NZ IFRS 16 was issued in February 2016 and is not effective for the Banking Group until 1 October 2019. NZ IFRS 16 requires a lessee to recognise its right to use the underlying leased asset, as a right-of-use asset; and its obligation to make lease payments as a lease liability. NZ IFRS 16 substantially carries forward the lessor accounting requirements in NZ IAS 17 *Leases*.

The Banking Group is in the process of assessing the impact of the application of NZ IFRS 16 and is not yet able to reasonably estimate the impact on its financial statements.

2. OPERATING INCOME

	2018 NZ$m	2017 NZ$m
Net Interest income		
Interest income by type of financial asset		
Financial assets at amortised cost	5,986	5,736
Trading securities	240	351
Available-for-sale assets	159	106
Financial assets at fair value through profit or loss	5	5
Interest income	6,390	6,198
Interest expense by type of financial liability		
Financial liabilities at amortised cost	(3,168)	(3,023)
Financial liabilities designated at fair value through profit or loss	(72)	(138)
Interest expense	(3,240)	(3,161)
Net interest income	3,150	3,037
Other operating income		
(i) Fee and commission income		
Lending and credit facility fees	32	35
Non-lending fees and commissions	725	702
Fee and commission income	757	737
Fee and commission expense	(363)	(328)
Net fee and commission income	394	409
(ii) Other income		
Net foreign exchange earnings and other financial instruments income	237	129
Derivative valuation adjustments	13	33
Loss on sale of mortgages to NZ Branch	(1)	(1)
Gain on UDC terminated transaction	20	-
Insurance proceeds	20	-
Other	33	34
Other income	322	195
Other operating income	716	604
Net funds management and insurance income		
Net funds management income	217	199
Net insurance income	188	130
Net funds management and insurance income	405	329
Share of associates' profit	5	5
Operating income	4,276	3,975

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, available-for-sale-assets or designated at fair value, in profit or loss using the effective interest rate method. This method uses the effective interest rate of a financial asset or financial liability 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.

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) 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 not designated as accounting hedges that we use to manage interest rate and foreign exchange risk on funding instruments;
- the ineffective portions of fair value hedges and 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
- 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.

NET FUNDS MANAGEMENT AND INSURANCE INCOME

Net Funds Management Income

We recognise the fees we charge to managed investment schemes and other customers when we have provided the service.

Net Insurance Income

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

	2018 NZ$m	2017 NZ$m
Personnel		
Salaries and related costs	820	801
Superannuation costs	29	29
Other	42	26
Personnel expenses	891	856
Premises		
Leasing and rental costs	82	80
Other	71	73
Premises expenses	153	153
Technology		
Licences and outsourced services	126	125
Other	99	93
Technology expenses	225	218
Other		
Advertising and public relations	43	41
Professional fees	45	43
Freight, stationery, postage and telephone	44	45
Charges from Ultimate Parent Bank	52	46
Other	64	66
Other expenses	248	241
Operating expenses	1,517	1,468

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:

	2018 NZ$m	2017 NZ$m
Profit before income tax	**2,704**	2,445
Prima facie income tax expense at 28%	**757**	685
Tax effect of permanent differences:		
Imputed and non-assessable dividends	**(1)**	(1)
Tax provisions no longer required	**(3)**	(5)
Non assessable income and non deductible expenditure	**(1)**	2
Subtotal	**752**	681
Income tax over provided in previous years	**(1)**	(1)
Income tax expense	**751**	680
Current tax expense	**910**	641
Adjustments recognised in the current year in relation to the current tax of previous years	**(1)**	(1)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	**(158)**	40
Income tax expense	**751**	680
Effective tax rate	**27.8%**	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 2017		
Dividend paid in March 2017	23.5 cents	785
Dividend paid in September 2017	26.9 cents	899
Dividends paid during the year ended 30 September 2017		1,684
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

IMPUTATION CREDIT ACCOUNT

	2018 NZ$m	2017 NZ$m
Imputation credits available	4,919	4,196

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

OPERATING 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.

Segment reporting has been updated to reflect minor changes to the Banking Group's structure. Comparative data has been adjusted to be consistent with the current year's segment definitions.

Retail

Retail provides 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 and the agricultural business segment.

Institutional

The Institutional division services 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 segment analysis

Year ended 30 September 2018	Retail NZ$m	Commercial NZ$m	Institutional NZ$m	Other NZ$m	Total NZ$m
Interest income	3,538	2,139	719	(6)	6,390
Interest expense	(1,761)	(1,169)	(394)	84	(3,240)
Net interest income	1,777	970	325	78	3,150
Other operating income	680	21	265	155	1,121
Share of associates' profit	5	-	-	-	5
Operating income	2,462	991	590	233	4,276
Operating expenses	(1,036)	(258)	(182)	(41)	(1,517)
Profit before credit impairment and income tax	1,426	733	408	192	2,759
Credit impairment (charge) / release	(50)	41	(46)	-	(55)
Profit before income tax	1,376	774	362	192	2,704
Income tax expense	(384)	(217)	(101)	(49)	(751)
Profit after income tax	992	557	261	143	1,953
Other information					
Goodwill[1]	1,109	1,052	1,069	-	3,230
Net loans and advances	76,843	42,446	7,166	11	126,466
Customer deposits	70,259	16,842	16,954	-	104,055

Year ended 30 September 2017	Retail NZ$m	Commercial NZ$m	Institutional NZ$m	Other NZ$m	Total NZ$m
Interest income	3,430	2,070	699	(1)	6,198
Interest expense	(1,727)	(1,170)	(339)	75	(3,161)
Net interest income	1,703	900	360	74	3,037
Other operating income	688	21	302	(78)	933
Share of associates' profit	5	-	-	-	5
Operating income	2,396	921	662	(4)	3,975
Operating expenses	(1,005)	(259)	(189)	(15)	(1,468)
Profit before credit impairment and income tax	1,391	662	473	(19)	2,507
Credit impairment (charge) / release	(35)	(51)	24	-	(62)
Profit before income tax	1,356	611	497	(19)	2,445
Income tax expense	(379)	(172)	(140)	11	(680)
Profit after income tax	977	439	357	(8)	1,765
Other information					
Goodwill[1]	1,109	1,052	1,069	-	3,230
Net loans and advances[1]	71,942	40,963	7,589	45	120,539
Customer deposits[1]	67,796	14,059	14,974	-	96,829

1 Including items reclassified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT REPORTING (continued)

OTHER SEGMENT

The Other segment profit/(loss) after income tax comprises:

	2018 NZ$m	2017 NZ$m
Central functions[1]	15	1
Technology and Group Centre	65	59
Economic hedges	48	(43)
Revaluation of insurance policies from changes in interest rates	15	(25)
Total	143	(8)

1 Central functions' external revenues for the year ended 30 September 2018 includes the $20 million insurance proceeds (Note 2 Operating Income) that were received from a member of the Overseas Banking Group.

7. CASH AND CASH EQUIVALENTS

	2018 NZ$m	2017 NZ$m
Coins, notes and cash at bank	204	202
Securities purchased under agreements to resell in less than 3 months	136	360
Balances with central banks	1,734	1,776
Settlement balances owed to the Banking Group within 3 months[1]	126	-
Cash and cash equivalents	2,200	2,338

Reconciliation of cash and cash equivalents to the balance sheet

	2018 NZ$m	2017 NZ$m
Cash and cash equivalents per the balance sheet	2,200	2,338
Amounts included in settlement balances receivable / (payable):		
Nostro accounts[1]	-	170
Overdrawn nostro accounts	-	(69)
Cash and cash equivalents as per the cash flow statement	2,200	2,439

1 Settlement balances due within 3 months have been recognised in cash and cash equivalents on the balance sheet from 30 September 2018.

8. TRADING SECURITIES

	2018 NZ$m	2017 NZ$m
Government securities	4,696	3,299
Corporate and financial institution securities	3,328	4,364
Trading securities	**8,024**	7,663

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

Fair value	Assets 2018 NZ$m	Liabilities 2018 NZ$m	Assets 2017 NZ$m	Liabilities 2017 NZ$m
Derivative financial instruments - held for trading	7,746	(7,023)	9,490	(8,992)
Derivative financial instruments - designated in hedging relationships	340	(1,072)	388	(834)
Derivative financial instruments	**8,086**	**(8,095)**	9,878	(9,826)

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's positions that are not part of 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 obligation at a future date.
Futures	An exchange traded contract in which the parties agree to buy and 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:

Fair value	Assets 2018 NZ$m	Liabilities 2018 NZ$m	Assets 2017 NZ$m	Liabilities 2017 NZ$m
Interest rate contracts				
Forward rate agreements	5	(4)	-	-
Futures contracts	7	(10)	5	(24)
Swap agreements	4,242	(3,920)	7,062	(6,335)
Options purchased	3	-	3	-
Options sold	-	(1)	-	(1)
Total	4,257	(3,935)	7,070	(6,360)
Foreign exchange contracts				
Spot and forward contracts	1,179	(889)	615	(696)
Swap agreements	2,248	(2,146)	1,773	(1,895)
Options purchased	34	(3)	17	-
Options sold	2	(24)	2	(27)
Total	3,463	(3,062)	2,407	(2,618)
Commodity contracts and credit default swaps	26	(26)	13	(14)
Derivative financial instruments - held for trading	7,746	(7,023)	9,490	(8,992)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

The Banking Group utilises 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 foreign exchange component of 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 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.

The fair value of derivative financial instruments designated in hedging relationships are:

Fair value	Hedge accounting type	Assets 2018 NZ$m	Liabilities 2018 NZ$m	Assets 2017 NZ$m	Liabilities 2017 NZ$m
Interest rate swap agreements	Fair value	54	(819)	86	(618)
Interest rate swap agreements	Cash flow	286	(253)	302	(216)
Derivative financial instruments - designated in hedging relationships		340	(1,072)	388	(834)

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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$m	2017 NZ$m
Gain/(loss) recognised in other operating income			
Hedged item	Fair value	212	153
Hedging instrument	Fair Value	(221)	(159)

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.
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. AVAILABLE-FOR-SALE ASSETS

	2018				2017			
Period / Security type	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	110	19	-	129	277	270	-	547
Between 3 and 12 months	616	162	-	778	695	158	-	853
Between 1 and 5 years	3,134	1,831	-	4,965	2,609	1,578	-	4,187
Greater than 5 years	458	171	-	629	657	115	-	772
No maturity	-	-	1	1	-	-	1	1
Available-for-sale assets	4,318	2,183	1	6,502	4,238	2,121	1	6,360

RECOGNITION AND MEASUREMENT

Available-for-sale (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 AFS 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 FINANCIAL STATEMENTS

11. NET LOANS AND ADVANCES

The following table provides details of net loans and advances for the Banking Group:

	Note	2018 NZ$m	2017 NZ$m
Overdrafts		905	1,040
Credit cards		1,644	1,638
Term loans - housing		78,395	72,524
Term loans - non-housing		44,169	44,227
Finance lease and hire purchase receivables		1,791	1,577
Subtotal		126,904	121,006
Unearned income		(239)	(222)
Capitalised brokerage/mortgage origination fees		313	334
Gross loans and advances (including assets reclassified as held for sale)		126,978	121,118
Provision for credit impairment	12	(512)	(579)
Net loans and advances (including assets reclassified as held for sale)		126,466	120,539
Less: Net loans and advances reclassified as held for sale	25	-	(2,912)
Net loans and advances		126,466	117,627
Residual contractual maturity:			
- within one year		26,896	23,799
- after more than one year		99,570	93,828
Net loans and advances		126,466	117,627

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ$2,210 million as at 30 September 2018 (2017: NZ$4,337 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.

12. PROVISION FOR CREDIT IMPAIRMENT

PROVISION FOR CREDIT IMPAIRMENT – BALANCE SHEET

	Net loans and advances		Off-balance sheet credit related commitments		Total	
Provision for credit impairment	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Individual provision						
Balance at start of year	152	151	-	-	152	151
New and increased provisions	213	232	-	-	213	232
Write-backs	(83)	(95)	-	-	(83)	(95)
Bad debts written off (excluding recoveries)	(149)	(133)	-	-	(149)	(133)
Discount unwind	(3)	(3)	-	-	(3)	(3)
Total individual provision	130	152	-	-	130	152
Collective provision						
Balance at start of year	343	367	84	104	427	471
Release to profit or loss	(32)	(24)	(13)	(20)	(45)	(44)
Total collective provision	311	343	71	84	382	427
Total provision for credit impairment	441	495	71	84	512	579

CREDIT IMPAIRMENT CHARGE – INCOME STATEMENT

Credit impairment charge	2018 NZ$m	2017 NZ$m
New and increased provisions	213	232
Write-backs	(83)	(95)
Recoveries of amounts previously written-off	(30)	(31)
Individual credit impairment charge	100	106
Collective credit impairment release	(45)	(44)
Total credit impairment charge	55	62

NOTES TO THE FINANCIAL STATEMENTS

12. PROVISION FOR CREDIT IMPAIRMENT (continued)

RECOGNITION AND MEASUREMENT

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.	

KEY JUDGEMENTS AND ESTIMATES

When we measure impairment of loans and advances, we use 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 review our key judgements and update them to reflect actual loss experience.

13. DEPOSITS AND OTHER BORROWINGS

	Note	2018 NZ$m	2017 NZ$m
Term deposits		**51,298**	45,457
On demand and short term deposits		**41,602**	41,451
Deposits not bearing interest		**10,224**	8,882
UDC secured investments	17	**931**	1,039
Total customer deposits		**104,055**	96,829
Certificates of deposit		**910**	1,916
Commercial paper		**2,486**	3,721
Securities sold under repurchase agreements		**517**	157
Deposits from Immediate Parent Company and NZ Branch	26	**40**	73
Deposits and other borrowings (including liabilities reclassified as held for sale)		**108,008**	102,696
Less: Deposits and other borrowings reclassified as held for sale	25	**-**	(1,039)
Deposits and other borrowings		**108,008**	101,657
Residual contractual maturity:			
- to be settled within 1 year		**103,492**	97,301
- to be settled after 1 year		**4,516**	4,356
Deposits and other borrowings		**108,008**	101,657
Carried on Balance Sheet at:			
Amortised cost		**105,522**	97,936
Fair value through profit or loss (designated on initial recognition)		**2,486**	3,721
Deposits and other borrowings		**108,008**	101,657

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.

	2018 NZ$m	2017 NZ$m
Senior debt	18,767	16,008
Covered bonds	3,929	5,315
Total unsubordinated debt	22,696	21,323
Subordinated debt		
- Additional Tier 1 capital	2,439	2,438
- Other	-	845
Total subordinated debt	2,439	3,283
Total debt issued	25,135	24,606

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.

		2018 NZ$m	2017 NZ$m
AUD	Australian Dollars	45	54
EUR	Euro	6,740	6,676
JPY	Japanese Yen	36	38
NZD	New Zealand Dollars	6,654	7,147
CHF	Swiss Francs	1,658	1,672
USD	United States Dollars	10,002	9,019
Total debt issued		25,135	24,606
Residual contractual maturity:			
- to be settled within 1 year		3,835	4,014
- to be settled after 1 year		21,300	20,592
Total debt issued		25,135	24,606

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.

NZX Regulation has granted the Bank a waiver from NZX Debt Market Listing Rule (Rule) 7.12.1 to the extent that this Rule requires the Bank to release to the market details of any acquisition of the Bank's domestic bonds as a result of its market-making activities or trading on behalf of its clients. The Bank will notify the NZX if any such domestic bonds are subsequently cancelled. Rule 7.12.1 does not extend to the Bank's subsidiaries in this context. The Bank will continue to comply with Rule 7.12.1 in respect of any domestic bonds that are issued, redeemed or purchased by the Bank in any other capacity.

Senior debt includes a series of bonds quoted on the NZX Debt Market that matures on 22 March 2019 (the Bonds). NZX Regulation has granted the Bank a waiver from the requirement in Rule 5.2.3 (as modified by NZX Regulation's Ruling on Rule 5.2.3 issued on 29 September 2015) for the Bonds to be held by at least 100 members of the public holding at least 25% of the Bonds issued (Spread). The effect of this waiver is that the Bonds may not be widely held and there may be reduced liquidity in the Bonds. If there is a material reduction in the Spread of the Bonds, the Bank will notify NZX as appropriate.

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).

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 2018, ANZ NZ CN carried a BB+ 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). 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 show 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 2018 (net of issue costs)	NZ$498 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 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.

NOTES TO THE FINANCIAL STATEMENTS

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 Credit risk is the risk of financial loss from a customer, or counterparty, failing to meet their financial obligations – including the whole and timely payment of principal, interest, collateral, and other receivables.	• Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management
Market risk Market risk is the risk of loss arising from potential adverse changes in the value of the Banking Group's assets and liabilities and other trading positions from fluctuations in market variables. These variables include, but are not limited to interest rates, foreign exchange, equity prices, commodity prices, credit spreads, implied volatilities, and asset correlations.	• 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 Liquidity risk is the risk that the Banking Group is unable to meet its payment obligations when they fall due; or does not have the appropriate amount, tenor and composition of funding and liquidity to fund increases in its 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 *Financial Instruments: Disclosures*.

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.

The Internal Audit Function reports directly to the Bank's Board Audit Committee (BAC). Internal Audit provides:
- an independent evaluation of the Banking Group's RMF annually and undertakes a comprehensive review every three years;
- assurance on the appropriateness, effectiveness and adequacy of the risk management framework, which includes assurance the framework is operating effectively; and
- recommendations to improve the framework and/or work practices to strengthen the effectiveness of day to day operations.

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, economic 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 CCRs to manage the credit quality of financial assets neither past due nor impaired. To enable wider comparisons, the Banking Group's CCRs are mapped to external rating agency scales as follows:

Internal Rating	The Banking Group Customer Requirements	Moody's Rating	S&P Global Ratings
Strong credit profile	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 risk	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+
Sub-standard but not past due nor impaired	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

NOTES TO THE FINANCIAL STATEMENTS

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.

For the purpose of this note, assets presented as assets 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	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
On-balance sheet positions						
Net loans and advances[2,3]	126,466	120,539	(71)	(84)	126,537	120,623
Other financial assets:						
Cash and cash equivalents	2,200	2,338	204	198	1,996	2,140
Settlement balances owed to the Banking Group	656	536	-	-	656	536
Collateral paid	1,919	1,415	-	-	1,919	1,415
Trading securities	8,024	7,663	-	-	8,024	7,663
Derivative financial instruments	8,086	9,878	-	-	8,086	9,878
Available-for-sale assets	6,502	6,360	-	-	6,502	6,360
Other financial assets[4]	719	744	-	-	719	744
Total other financial assets	28,106	28,934	204	198	27,902	28,736
Subtotal	154,572	149,473	133	114	154,439	149,359
Off-balance sheet positions						
Undrawn and contingent facilities[2,5]	30,105	29,377	71	84	30,034	29,293
Total	184,677	178,850	204	198	184,473	178,652

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.

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT QUALITY

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 provision for credit impairment.

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Neither past due nor impaired								
Strong credit profile	92,783	81,595	27,368	28,024	23,475	22,922	143,626	132,541
Satisfactory risk	29,335	34,283	521	702	6,186	6,016	36,042	41,001
Sub-standard but not past due or impaired	2,296	2,558	13	10	359	349	2,668	2,917
Subtotal	124,414	118,436	27,902	28,736	30,020	29,287	182,336	176,459
Past due but not impaired								
≥ 1 < 30 days	1,420	1,385	-	-	-	-	1,420	1,385
≥ 30 < 60 days	179	290	-	-	-	-	179	290
≥ 60 < 90 days	128	125	-	-	-	-	128	125
≥ 90 days	205	182	-	-	-	-	205	182
Subtotal	1,932	1,982	-	-	-	-	1,932	1,982
Impaired								
Impaired loans	321	357	-	-	-	-	321	357
Non-performing commitments and contingencies	-	-	-	-	14	6	14	6
Gross impaired financial assets	321	357	-	-	14	6	335	363
Individual provisions	(130)	(152)	-	-	-	-	(130)	(152)
Subtotal net impaired	191	205	-	-	14	6	205	211
Total	126,537	120,623	27,902	28,736	30,034	29,293	184,473	178,652

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[3,4]		Other financial assets[4]		Off-balance sheet credit related commitments[5]		Total	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
New Zealand residents								
Agriculture	17,844	17,686	82	83	1,373	1,436	19,299	19,205
Forestry and fishing, agriculture services	1,379	1,277	9	5	249	240	1,637	1,522
Manufacturing	2,687	2,729	284	169	1,793	1,798	4,764	4,696
Electricity, gas, water and waste services	1,403	1,602	330	457	1,576	1,522	3,309	3,581
Construction	1,713	1,635	21	18	1,358	1,119	3,092	2,772
Wholesale trade	1,404	1,630	63	54	1,521	1,357	2,988	3,041
Retail trade and accommodation	3,211	3,058	27	28	969	1,133	4,207	4,219
Transport, postal and warehousing	1,222	1,440	121	69	783	894	2,126	2,403
Finance and insurance services	872	903	5,509	5,268	1,567	1,259	7,948	7,430
Public administration and safety[1]	364	412	9,654	8,099	1,043	794	11,061	9,305
Rental, hiring & real estate services	31,805	30,697	235	218	3,461	3,699	35,501	34,614
Professional, scientific, technical, administrative and support services	1,165	1,267	9	10	633	619	1,807	1,896
Households	56,808	51,554	192	180	11,977	11,878	68,977	63,612
All other New Zealand residents[2]	2,569	2,625	167	253	1,663	1,474	4,399	4,352
Subtotal	124,446	118,515	16,703	14,911	29,966	29,222	171,115	162,648
Overseas								
Finance and insurance services	128	123	11,109	13,126	139	155	11,376	13,404
Households	1,512	1,454	5	5	-	-	1,517	1,459
All other non-NZ residents	818	914	85	694	-	-	903	1,608
Subtotal	2,458	2,491	11,199	13,825	139	155	13,796	16,471
Gross subtotal	126,904	121,006	27,902	28,736	30,105	29,377	184,911	179,119
Provision for credit impairment	(441)	(495)	-	-	(71)	(84)	(512)	(579)
Subtotal	126,463	120,511	27,902	28,736	30,034	29,293	184,399	178,540
Unearned income	(239)	(222)	-	-	-	-	(239)	(222)
Capitalised brokerage / mortgage origination fees	313	334	-	-	-	-	313	334
Maximum exposure to credit risk	126,537	120,623	27,902	28,736	30,034	29,293	184,473	178,652

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 classified as held for sale.
5 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 from its expected cashflows. 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.

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, Available-for-sale assets, 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 on 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	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Net loans and advances[1]	**126,537**	120,623	**117,337**	110,914	**9,200**	9,709
Other financial assets[1]	**27,902**	28,736	**2,029**	1,617	**25,873**	27,119
Off-balance sheet positions	**30,034**	29,293	**15,124**	14,526	**14,910**	14,767
Total	**184,473**	178,652	**134,490**	127,057	**49,983**	51,595

[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, 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 risks 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: 1. Currency risk – potential loss arising from changes in foreign exchange rates or their implied volatilities. 2. Interest rate risk – potential loss from changes in market interest rates or their implied volatilities. 3. Credit spread risk – potential loss arising from a movement in margin or spread relative to a benchmark. 4. Commodity risk – potential loss arising from changes in commodity prices or their implied volatilities. 5. 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 one-day and ten-day holding periods. 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 on any given day.

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:

	30 September 2018				30 September 2017			
	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 risk	0.5	1.6	0.2	0.7	0.1	1.2	0.1	0.4
Interest rate risk	1.4	3.6	0.8	1.9	3.0	5.8	1.3	2.5
Credit spread risk	0.5	0.8	0.3	0.5	0.6	0.8	0.4	0.6
Diversification benefit[1]	(1.0)	n/a	n/a	(0.9)	(0.9)	n/a	n/a	(0.9)
Total VaR	1.4	4.0	1.0	2.2	2.8	5.3	1.4	2.6

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.

	30 September 2018				30 September 2017			
	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	8.0	10.2	6.4	7.8	8.3	10.2	7.3	8.2

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.

	2018	2017
Impact of 1% rate shock		
As at period end	-0.4%	0.6%
Maximum exposure	0.9%	0.9%
Minimum exposure	-1.2%	-0.3%
Average exposure (in absolute terms)	0.0%	0.4%

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 support 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 2018 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 while targeting diversification by markets, investors, currencies, maturities and funding structures. Short-term wholesale funding requirements, with a contractual maturity of less than one year, are managed through Treasury and Markets operations. Long-term wholesale funding is managed and executed through Treasury operations.

The Banking Group also uses maturity concentration limits under the wholesale funding and liquidity management framework. Maturity concentration limits ensure that the Banking Group 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

	2018 NZ$m	2017 NZ$m
Cash and balances with central banks	2,026	2,102
Certificates of deposit	179	59
Central and local government bonds	7,528	6,609
Government treasury bills	794	775
Reserve Bank bills	50	-
Other bonds	5,493	6,390
Total liquidity portfolio	16,070	15,935

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 NZ domestic corporates. These assets would be accepted as collateral by RBNZ in repurchase transactions. At 30 September 2018 the Banking Group would be eligible to enter into repurchase transactions with a value of NZ$14,044 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$7,060 million at 30 September 2018.

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 New Zealand Standard Industry Output Categories (NZSIOC).

	Note	2018 NZ$m	2017 NZ$m
Funding composition			
Customer deposits[1]	13	104,055	96,829
Wholesale funding			
Debt issuances		25,135	24,606
Certificates of deposit and commercial paper		3,396	5,637
Other borrowings		557	230
Total wholesale funding		29,088	30,473
Total funding		133,143	127,302
Customer deposits by industry - New Zealand residents			
Agriculture, forestry and fishing		3,763	3,487
Manufacturing		2,335	2,024
Construction		2,050	1,851
Wholesale trade		1,571	1,433
Retail trade and accommodation		1,484	1,516
Financial and insurance services		10,661	8,996
Rental, hiring and real estate services		2,878	2,596
Professional, scientific, technical, administrative and support services		5,126	5,034
Public administration and safety		1,572	1,261
Arts, recreation and other services		2,027	1,928
Households		56,640	53,222
All other New Zealand residents[2]		3,556	3,483
		93,663	86,831
Customer deposits by industry - overseas			
Households		9,876	9,461
All other non-NZ residents		516	537
		10,392	9,998
Total customer deposits		104,055	96,829
Wholesale funding (financial and insurance services industry)			
New Zealand		8,082	9,134
Overseas		21,006	21,339
Total wholesale funding		29,088	30,473
Total funding		133,143	127,302
Concentrations of funding by geography			
New Zealand		101,745	95,965
Australia		739	796
United States		13,671	13,471
Europe		9,618	9,784
Other countries		7,370	7,286
Total funding		133,143	127,302

1 Including items reclassified as held for sale.
2 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 FINANCIAL OF THE BANKING GROUP'S LIABILITIES

The table below provides residual contractual maturity analysis of financial liabilities at 30 September 2018 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.

2018	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 owed by the Banking Group	1,338	837	-	-	-	2,175
Collateral received	-	845	-	-	-	845
Deposits and other borrowings[1]	52,016	25,701	27,008	4,854	-	109,579
Derivative financial liabilities (trading)	-	6,147	-	-	-	6,147
Debt issuances[2]	-	930	3,676	17,810	4,596	27,012
Other financial liabilities[1]	-	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)

2017	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 owed by the Banking Group	1,165	685	-	-	-	1,850
Collateral received	-	613	-	-	-	613
Deposits and other borrowings[1]	58,287	24,814	24,320	4,504	-	111,925
Derivative financial liabilities (trading)	-	8,057	-	-	-	8,057
Debt issuances[2]	-	1,604	2,950	16,496	5,424	26,474
Other financial liabilities[1]	-	155	6	56	144	361
Derivative financial instruments (balance sheet management)						
- gross inflows	-	2,082	2,300	8,128	2,867	15,377
- gross outflows	-	(2,235)	(2,433)	(8,328)	(2,741)	(15,737)

[1] Including items reclassified as held for sale.
[2] Any callable wholesale debt instruments have been included at their next call date. Refer to Note 14 Debt Issuances for subordinated debt call dates.

At 30 September 2018, NZ$93 million (2017: NZ$88 million) of the Banking Group's non-credit related commitments and NZ$30,105 million (2017: NZ$29,377 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 of a financial instrument is 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 OF FINANCIAL INSTRUMENTS

The Banking Group has an established control framework, including an 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 FVA, CVA and bid-offer) 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 financial 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 liabilities - Available-for-sale assets	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 in which contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market 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 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.

		2018			2017		
	Fair value details refer to 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		2,200	-	2,200	2,338	-	2,338
Settlement balances owed to the Banking Group		656	-	656	536	-	536
Collateral paid		1,919	-	1,919	1,415	-	1,415
Trading securities	8	-	8,024	8,024	-	7,663	7,663
Derivative financial instruments	9	-	8,086	8,086	-	9,878	9,878
Available-for-sale assets	10	-	6,502	6,502	-	6,360	6,360
Net loans and advances[1]		126,466	-	126,466	120,539	-	120,539
Other financial assets[1]		592	127	719	621	123	744
Total		131,833	22,739	154,572	125,449	24,024	149,473
Financial liabilities							
Settlement balances owed by the Banking Group		2,161	-	2,161	1,840	-	1,840
Collateral received		845	-	845	613	-	613
Deposits and other borrowings[1]	13	105,522	2,486	108,008	98,975	3,721	102,696
Derivative financial instruments	9	-	8,095	8,095	-	9,826	9,826
Debt issuances		25,135	-	25,135	24,606	-	24,606
Other financial liabilities[1]		576	110	686	608	151	759
Total		134,239	10,691	144,930	126,642	13,698	140,340

[1] Including items reclassified as held for sale.

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

FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE ON THE BALANCE SHEET

The Banking Group categorises financial 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 fair value:

- Level 1 – valuations based on quoted prices (unadjusted) in active markets for identical financial instruments;
- Level 2 – valuations using inputs other than quoted prices included within Level 1 that are observable for a similar financial asset or liability, either directly or indirectly; and
- Level 3 – valuations using inputs for the assets or liability that are not based on observable market data (unobservable inputs).

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	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Assets								
Trading securities	6,795	7,276	1,229	387	-	-	8,024	7,663
Derivative financial instruments	7	5	8,076	9,870	3	3	8,086	9,878
Available-for-sale assets	6,457	5,336	44	1,023	1	1	6,502	6,360
Investments backing insurance contract liabilities[1]	-	-	127	123	-	-	127	123
Total	13,259	12,617	9,476	11,403	4	4	22,739	24,024
Liabilities								
Deposits and other borrowings[1]	-	-	2,486	3,721	-	-	2,486	3,721
Derivative financial instruments	10	24	8,084	9,801	1	1	8,095	9,826
Other financial liabilities	110	151	-	-	-	-	110	151
Total	120	175	10,570	13,522	1	1	10,691	13,698

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 sets out the Banking Group's basis of estimating fair values of the above 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 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)			
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Financial assets										
Net loans and advances[1,2]	126,466	120,539	-	-	131	136	126,614	120,452	126,745	120,588
Total	126,466	120,539	-	-	131	136	126,614	120,452	126,745	120,588
Financial liabilities										
Deposits and other borrowings[1]	105,522	98,975	-	-	105,592	99,030	-	-	105,592	99,030
Debt issuances	25,135	24,606	2,533	2,855	22,929	22,163	-	-	25,462	25,018
Total	130,657	123,581	2,533	2,855	128,521	121,193	-	-	131,054	124,048

1 Including items reclassified as held for sale.
2 We have reviewed the fair value of Net Loans and advances previously presented as Level 2. In line with broader industry practice Net loans and advances other than Loans to Banks are now presented as Level 3.

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 Credit Support Annex that forms part of the International Swaps and Derivatives Association 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.
- 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:

	2018 NZ$m	2017 NZ$m
Securities sold under agreements to repurchase[1]	**517**	157
Assets pledged as collateral for UDC secured investments	**3,296**	2,985
Residential mortgages pledged as security for covered bonds	**10,747**	10,595

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:

	2018 NZ$m	2017 NZ$m
Fair value of assets which can be sold or repledged	**139**	361
Fair value of assets sold or repledged	**34**	218

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.

			Amount subject to master netting agreement or similar			
2018	Total amounts recognised in the Balance Sheet NZ$m	Amounts not subject to master netting agreement or similar NZ$m	Total NZ$m	Financial instruments NZ$m	Financial collateral (received)/ pledged NZ$m	Net amount NZ$m
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)

			Amount subject to master netting agreement or similar			
2017	Total amounts recognised in the Balance Sheet NZ$m	Amounts not subject to master netting agreement or similar NZ$m	Total NZ$m	Financial instruments NZ$m	Financial collateral (received)/ pledged NZ$m	Net amount NZ$m
Derivative financial instruments	9,878	(1,933)	7,945	(7,478)	(245)	222
Reverse repurchase agreements[1]	360	-	360	-	(360)	-
Total financial assets	10,238	(1,933)	8,305	(7,478)	(605)	222
Derivative financial instruments	(9,826)	1,386	(8,440)	7,478	348	(614)
Repurchase agreements[2]	(157)	-	(157)	-	157	-
Total financial liabilities	(9,983)	1,386	(8,597)	7,478	505	(614)

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	2018 NZ$m	2017 NZ$m
Goodwill		3,230	3,230
Software		53	67
Other intangibles		107	111
Goodwill and other intangible assets (including assets reclassified as held for sale)		3,390	3,408
Less: Goodwill and other intangible assets reclassified as held for sale	25	(101)	(133)
Goodwill and other intangible assets		3,289	3,275

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 Gross Domestic Product (GDP) and the Consumer Price Index (CPI). Cash flows beyond the three year period are extrapolated using a 3% growth rate.

These cash flow projections are discounted using a capital asset pricing model. As at 28 February 2018 when the last valuation was prepared, a discount rate of 11.4% 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 the 10 year Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each segment.

Management believes any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the 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 and investment 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 or 10 years.	Acquired portfolios of insurance and investment 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.
Depreciation 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. SHAREHOLDERS' EQUITY

	Number of issued shares		NZ$ millions	
	2018	2017	2018	2017
Ordinary shares				
Ordinary shares at start of year	3,345,755,498	3,345,755,498	8,588	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	3,345,755,498	11,588	8,588
Preference shares	300,000,000	300,000,000	300	300
Total share capital	6,645,755,498	3,645,755,498	11,888	8,888

1 Includes 650,712 (2017: 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 on or after 1 March 2019; or
- on any date after 1 March 2019 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 Company, 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 position is settled.
Available-for-sale reserve	Includes the changes in fair value and exchange differences on our revaluation of available-for-sale financial assets, net of deferred taxes to be realised upon disposal of the asset.

NOTES TO THE FINANCIAL STATEMENTS

21. 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 economic risk 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 economic 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.

The Banking Group complied with all the regulatory Capital Adequacy requirements during the current and prior years.

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.

21. CAPITAL MANAGEMENT (continued)

CAPITAL ADEQUACY

The following table provides details of the Banking Group's capital ratios at 30 September:

Unaudited	2018 NZ$m	2017 NZ$m
Qualifying capital		
Tier 1		
Shareholder's equity	13,109	12,781
Preference shares included in Additional Tier 1 capital	(300)	(300)
Gross Common Equity Tier 1 capital	12,809	12,481
Deductions	(3,728)	(3,754)
Common Equity Tier 1 capital	9,081	8,727
Additional tier 1 capital	2,776	2,778
Tier 1 capital	11,857	11,505
Tier 2 capital	-	234
Total capital	11,857	11,739
Capital adequacy ratios		
Common Equity Tier 1	11.1%	10.7%
Tier 1	14.4%	14.1%
Tier 2	0.0%	0.3%
Total	14.4%	14.4%
Buffer ratio	6.4%	6.2%
Risk weighted assets	82,147	81,642

22. 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**
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	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
OnePath Life (NZ) Limited	Insurance
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 23 Structured Entities.

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.

23. 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).

The Banking Group is involved with both consolidated and unconsolidated SEs which may be established by the Banking Group or by a third party. SEs are classified as subsidiaries and consolidated when control exists. If the Banking Group does not control a SE, then it will not be consolidated (an unconsolidated SE). 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 2018 and 30 September 2017 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, and are considered to be SEs.

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 (2017: nil).

23. STRUCTURED ENTITIES (continued)

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$191 million (2017: NZ$170 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 (2017: NZ$3.4 billion).

The Banking Group did not provide any non-contractual support to unconsolidated SEs during the year (2017: 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.

24. 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 23 Structured Entities for further details. The covered bonds issued externally are included within debt issuances.

NOTES TO THE FINANCIAL STATEMENTS

24. TRANSFERS OF FINANCIAL ASSETS (continued)

Repurchase agreements

If the Banking Group sells securities subject to repurchase agreements under which substantially all the risks and rewards of ownership remain with the Banking Group, then those assets are considered to be transferred assets that 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	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Current carrying amount of assets transferred	**10,747**	10,595	**517**	157
Carrying amount of associated liabilities	**3,929**	5,315	**517**	157

25. ASSETS AND LIABILITIES HELD FOR SALE

UDC

On 11 January 2017, the Bank announced that it had entered into a conditional agreement to sell UDC to HNA Group (HNA). On 21 December 2017, the Bank announced that it had been informed that the New Zealand Overseas Investment Office had declined HNA's application to acquire UDC and the agreement with HNA was terminated in January 2018. The assets and liabilities of UDC are no longer classified as held for sale as at 30 September 2018.

OnePath

On 30 May 2018, the Bank announced that it had agreed to sell OnePath to Cigna Corporation and the final regulatory approval was obtained on 29 October 2018. The transaction is subject to closing conditions and the Bank expects it to close in the 2019 financial year.

	2018 OnePath NZ$m	2017 UDC NZ$m
Net loans and advances	**-**	2,912
Life insurance contract assets	**662**	-
Goodwill and other intangible assets	**101**	133
Investments backing insurance contract liabilities	**127**	-
Other assets	**7**	20
Total assets held for sale	**897**	3,065
Deposits and other borrowings	**-**	1,039
Current tax liabilities	**16**	24
Deferred tax liabilities	**175**	(9)
Payables and other liabilities	**143**	33
Employee entitlements	**-**	1
Total liabilities held for sale	**334**	1,088

KEY JUDGEMENTS AND ESTIMATES

A significant level of judgement is used by the Banking Group to determine:

- whether an asset or group of assets is classified and presented as held for sale or as a discontinued operation; and
- the fair value of the assets and liabilities classified as being held for sale.

Any impairment we record is based on the best available evidence of the fair value compared to the carrying value before the impairment. The final sale price the Banking Group may achieve will depend on a number of factors and may be different to the fair value we estimate when recording the impairment. We expect that the sales will complete within 12 months after balance date, subject to the relevant regulatory approvals and customary terms of sale for such assets.

26. RELATED PARTY DISCLOSURES

Key management personnel

Key management personnel (KMP) are defined as directors and those executives who report directly to the Bank's Chief Executive Officer with responsibility for the strategic direction and management of a major revenue generating division or who control material revenue and expenses.

Loans made to directors and other KMP 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.

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. All such transactions that have occurred with KMP and their related parties have been trivial or domestic in nature. In this context, transactions are only disclosed when they are considered of interest to the users of the financial statements in making and evaluating decisions about the allocation of scarce resources.

	2018 NZ$000	2017 NZ$000
Key management personnel compensation		
Salaries and short-term employee benefits	11,677	11,430
Post-employment benefits	655	480
Other long-term benefits	38	60
Share-based payments	3,308	3,515
Total	15,678	15,485
Loans to, and securities held by, key management personnel and their related parties		
Loans	7,226	5,102
Unsubordinated debt	-	520
Subordinated debt	120	190

Transactions with other related parties

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. Transactions with related parties outside of the Banking Group are conducted on an arm's length basis and on normal commercial terms.

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

Transactions with related parties

	2018 NZ$m	2017 NZ$m
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Interest income	13	32
Interest expense	138	146
Fee income	9	14
Gain/(loss) on sale of mortgages to the NZ Branch	(1)	(1)
Other operating income	43	23
Operating expenses	52	46
Mortgages sold to the NZ Branch	302	481
Mortgages repurchased from the NZ Branch	1,575	736
Immediate Parent Company		
Interest expense	1	1
Ordinary shares issued	3,000	-
Dividends paid	4,611	1,695
Associates		
Direct fee expense	10	10
Dividends received	6	5
Share of associates' profit	5	5

NOTES TO THE FINANCIAL STATEMENTS

26. RELATED PARTY DISCLOSURES (continued)

Balances with related parties

	2018 NZ$m	2017 NZ$m
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Cash and cash equivalents	33	64
Settlement balances owed to the Banking Group	-	111
Derivative financial instruments	2,431	2,623
Other assets	39	42
Immediate Parent Company		
Derivative financial instruments	-	4
Associates		
Investments in associates	6	7
Total due from related parties	2,509	2,851
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Settlement balances owed by the Banking Group	125	220
Collateral received	257	198
Deposits and other borrowings	11	11
Derivative financial instruments	2,248	2,486
Payables and other liabilities	30	31
Subordinated debt	1,941	1,951
Immediate Parent Company		
Deposits and other borrowings	29	62
Derivative financial instruments	1	-
Associates		
Payables and other liabilities	1	1
Total due to related parties	4,643	4,960

Balances due from / to related parties are unsecured. The Bank has provided guarantees and commitments to related parties as follows:

	2018 NZ$m	2017 NZ$m
Financial guarantees provided to the Ultimate Parent Bank	138	155
Undrawn credit commitments provided to the Immediate Parent Company	250	250

27. COMMITMENTS AND CONTINGENT LIABILITIES

PROPERTY RELATED COMMITMENTS

	2018 NZ$m	2017 NZ$m
Property capital expenditure		
Contracts for outstanding capital expenditure (not later than 1 year)	7	4
Total capital expenditure commitments for property	7	4
Lease rentals		
Land and Buildings	331	370
Furniture and equipment	86	105
Motor vehicles	8	9
Total lease rental commitments	425	484
Due within 1 year	86	84
Due later than 1 year but not later than 5 years	224	256
Due later than 5 years	115	144
Total lease rental commitments	425	484

27. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2018 NZ$m	2017 NZ$m
Contract amount of:		
Undrawn facilities	**27,245**	26,769
Guarantees and letters of credit	**1,531**	1,010
Performance related contingencies	**1,329**	1,598
Total	**30,105**	29,377

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$27,245 million (2017: NZ$26,769 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$1,531 million (2017: NZ$1,010 million) and total performance related contingencies of NZ$1,329 million (2017: NZ$1,598 million) mature within 12 months.

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 the interests of the Banking Group.

In recent years there has been an increase in the number of matters on which the Banking Group engages with its regulators. Globally there have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators and customer claims. The Banking Group also instigates engagement with its regulators. The nature of these investigations and reviews can be wide-ranging and, for example, may include a range of matters including responsible lending practices, product suitability, wealth advice and adequacy of product disclosure documentation. 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. 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.

NOTES TO THE FINANCIAL STATEMENTS

28. COMPENSATION OF AUDITORS

	2018 NZ$000	2017 NZ$000
KPMG New Zealand		
Audit or review of financial statements[1]	2,199	2,227
Audit related services:		
Prudential and regulatory services[2]	212	225
Offer documents assurance or review	104	146
Other assurance services[3]	36	95
Total audit related services	352	466
Total compensation of auditors relating to the Banking Group	2,551	2,693
Fees relating to certain managed funds and not recharged[4]	45	46
Total compensation of auditors	2,596	2,739

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 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 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.

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

APRA Prudential Standard APS 222 *Associations with Related Entities* (APS 222) sets minimum requirements for authorised deposit-taking institutions in Australia (ADIs), 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 prudential limits on intra-group exposures.

Under APS222, the Ultimate Parent Bank's ability to provide financial support to the Bank is subject to certain 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 and 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) is deemed to trigger a default by the Ultimate Parent Bank on its obligations.
- the level of exposure 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 entities related to the Ultimate Parent Bank).

In addition, APRA 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 (its New Zealand branch and the Bank) 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 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 and that the Ultimate Parent Bank's exposures to its New Zealand operations must not exceed 50% of the Ultimate Parent Bank's Level 1 Tier 1 capital base. At present, only covered bonds meet APRA's criteria for contingent funding.

In July 2018, APRA released a consultation paper and draft prudential standards on proposed revisions to APS222, which also incorporated changes to its large exposures framework published in December 2017. APRA's proposals include revisions to the prudential limits on exposures to related entities. APRA is proposing to align the capital base used in limit calculations to Level 1 Tier 1 Capital (capital base used in the revised large exposures framework) and to reduce the individual and aggregate limits of exposures to individual related ADIs. APRA is currently consulting on the proposed changes, taking into account submissions already received from the Ultimate Parent Bank and the industry. The impact on the Overseas Banking Group (including ANZ New Zealand) arising from the above consultation will not be known until APRA finalises its review. APRA intends to have the revised APS222 framework implemented by 1 January 2020.

Effect of the Level 3 framework

Under APRA's Level 3 Conglomerates regulations, the Ultimate Parent Bank must limit its financial and operational exposures to subsidiaries (including 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 will 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.

Interest 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 is 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 26 for further details, and to page 43 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 15 November 2018.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

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.



	Rt Hon Sir John Key, GNZM AC	David Hisco	Antony Carter
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)	BBus, MBA	BE (Hons), ME, FNZIM
Resides	Auckland, New Zealand	Auckland, New Zealand	Auckland, New Zealand
Other company directorships	Air New Zealand Ltd, Australia and New Zealand Banking Group Ltd, Thirty Eight JK Ltd	None	Air New Zealand Ltd, Avonhead Mall Ltd, Blues Management Ltd, Fisher & Paykel Healthcare Corporation Ltd, Fisher & Paykel Healthcare Employee Share Purchase Trustee Ltd, Fletcher Building Ltd, Fletcher Building Industries Ltd, Loughborough Investments Ltd, Modern Merchants Ltd, Strategic Interchange Ltd, Tetrad Corporation Ltd



	Shayne Elliott	Michelle Jablko	Mark Verbiest
Position	Non-Executive Director	Non-Executive Director	Independent Non-Executive Director
Occupation	Chief Executive Officer, Australia and New Zealand Banking Group Ltd	Chief Financial Officer, Australia and New Zealand Banking Group Ltd	Company Director
Qualifications	BCom	LLB (Hons), B.Ec (Hons)	LLB, CFInstD
Resides	Melbourne, Australia	Melbourne, Australia	Wanaka, New Zealand
Other company directorships	Australia and New Zealand Banking Group Ltd, Financial Markets Foundation for Children	ANZ Holdings (New Zealand) Ltd	Bear Fund NZ Ltd, Freightways Ltd, Willis Bond Capital Partners Ltd, Willis Bond General Partner Ltd, MyCare Ltd, Meridian Energy Ltd

	Joan Withers
Position	Independent Non-Executive Director
Occupation	Company Director
Qualifications	MBA, AFInstD
Resides	Auckland, New Zealand
Other company directorships	Mercury NZ Ltd, On Being Bold Ltd, The Warehouse Group Ltd, The Warehouse Planit Trustees Ltd, The Warehouse Management Trustee Company Ltd, The Warehouse Management Trustee Company No.2 Ltd

B1. GENERAL DISCLOSURES (continued)

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 comprises four directors, all of whom are independent directors.

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 complete, in terms of section 140(1) of the Companies Act 1993, a disclosure of any interests which they have with the Bank itself. Directors are reminded at this time of their obligation under the Companies Act 1993 to disclose promptly any transaction or proposed transaction with the Bank in which they have an interest.
- Directors are also requested to make a general disclosure of their interest in other entities in terms of section 140(2) of the Companies Act 1993. In addition, they are requested to initiate a review of that disclosure if there are any significant alterations which occur subsequently during the period.

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

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

Auditors

KPMG, 18 Viaduct Harbour Avenue, Auckland, New Zealand.

Conditions of registration

The following conditions of registration were applicable as at 30 September 2018, and have applied from 1 January 2018.

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, —

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.

"Total capital ratio", "Tier 1 capital ratio", "Common Equity Tier 1 capital ratio", and "Total capital" must be calculated in accordance with 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 banking group complies with all requirements set out in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

REGISTERED BANK DISCLOSURES

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.

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 percent of the banking group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected 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.

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.

REGISTERED BANK DISCLOSURES

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 December 2011.

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

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

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

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

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

15. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purposes of this condition, —

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

"SPV" means a person—

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

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

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

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

16. That—

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

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

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

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

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

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

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

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

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.

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 loans with a loan-to-valuation ratio of more than 65%, 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 loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% 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 2018:

"loan-to-valuation measurement period" means—

(a) the six calendar month period ending on the last day of March 2018; 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 2018.

Non-compliance with conditions of registration

During the year ended 30 September 2018, the Bank sought clarification from RBNZ as to the treatment of commitments jointly held with the Ultimate Parent Bank in the risk weighted exposures for the Banking Group for capital adequacy purposes. RBNZ subsequently confirmed that those parts of the commitments that are not allocated to the Banking Group, but could become allocated to the Banking Group at the customer's request should be included in the Banking Group's calculation of risk weighted exposures. As a result, the Bank had not complied with Condition of Registration 1 and Condition of Registration 1B for a period of time. These commitments are included in the Banking Group's risk weighted exposures as at 30 September 2018, and the Bank was in full compliance with its Conditions of Registration as at that date. The Banking Group's capital ratios were not materially affected as a result of the non-compliance. As at 30 September 2018, the Banking Group's Tier 1 capital ratio decreased by 13 basis points to 14.4% and it had a NZ$58 million increase in its minimum capital requirement as a result of including these commitments in its risk weighted exposures. The Bank proactively brought this matter to the attention of RBNZ, who have acknowledged that no further action is warranted on the part of RBNZ.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

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 27 Commitments and Contingent Liabilities.

Credit rating

As at 15 November 2018 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 19 June 2017, Moody's Investors Service downgraded the Bank's credit rating from Aa3 to A1 and changed the outlook on the Bank from Negative to Stable.

The Bank's credit ratings are:

Rating Agency	Credit Rating	Qualification
S&P Global Ratings	AA-	Outlook Negative
Fitch Ratings	AA-	Outlook Stable
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.

B1. GENERAL DISCLOSURES (continued)

Historical summary of financial statements

Income Statement	2018 NZ$m	2017 NZ$m	2016 NZ$m	2015 NZ$m	2014 NZ$m
Interest income	**6,390**	6,198	6,423	6,926	6,272
Interest expense	**(3,240)**	(3,161)	(3,421)	(4,051)	(3,529)
Net interest income	**3,150**	3,037	3,002	2,875	2,743
Non-interest income	**1,126**	938	852	1,175	1,085
Operating income	**4,276**	3,975	3,854	4,050	3,828
Operating expenses	**(1,517)**	(1,468)	(1,599)	(1,512)	(1,489)
Credit impairment (charge) / release	**(55)**	(62)	(150)	(74)	16
Profit before income tax	**2,704**	2,445	2,105	2,464	2,355
Income tax expense	**(751)**	(680)	(570)	(681)	(639)
Profit after income tax	**1,953**	1,765	1,535	1,783	1,716
Dividends paid	**(4,611)**	(1,695)	(1,363)	(1,760)	(2,353)
Share capital issued	**3,000**	-	-	675	970
Balance Sheet					
Total assets	**159,012**	153,973	160,819	147,527	128,915
Total individually impaired assets	**321**	357	426	382	634
Total liabilities	**145,903**	141,192	148,109	135,074	117,134
Equity	**13,109**	12,781	12,710	12,453	11,781

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

Directors' statements

The Directors' statement is included on page 83.

Auditor's report

The auditor's report is included on page 84.

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.

REGISTERED BANK DISCLOSURES

B2. ADDITIONAL FINANCIAL DISCLOSURES

Additional information on the balance sheet

	2018 NZ$m	2017 NZ$m
Total interest earning and discount bearing assets	145,322	138,795
Total interest and discount bearing liabilities	124,625	119,814

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.

2018	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	2,200	1,913	-	-	-	-	287
Settlement balances owed to the Banking Group	656	-	-	-	-	-	656
Collateral paid	1,919	1,919	-	-	-	-	-
Trading securities	8,024	873	405	492	1,373	4,881	-
Derivative financial instruments	8,086	-	-	-	-	-	8,086
Available-for-sale assets	6,502	338	699	42	1,351	4,071	1
Net loans and advances[1]	126,466	63,027	10,370	23,835	20,835	8,771	(372)
Other financial assets[1]	719	62	55	8	-	2	592
Total financial assets	154,572	68,132	11,529	24,377	23,559	17,725	9,250
Liabilities							
Settlement balances owed by the Banking Group	2,161	750	-	-	-	-	1,411
Collateral received	845	845	-	-	-	-	-
Deposits and other borrowings[1]	108,008	67,952	12,924	12,444	3,043	1,421	10,224
Derivative financial instruments	8,095	-	-	-	-	-	8,095
Debt issuances	25,135	3,979	3,046	757	3,782	13,571	-
Other financial liabilities[1]	686	111	-	-	-	-	575
Total financial liabilities	144,930	73,637	15,970	13,201	6,825	14,992	20,305
Hedging instruments	-	14,690	1,522	(14,121)	(9,146)	7,055	-
Interest sensitivity gap	9,642	9,185	(2,919)	(2,945)	7,588	9,788	(11,055)

[1] Including items reclassified as held for sale

Reconciliation of mortgage related amounts

As at 30 September 2018	Note	NZ$m
Term loans - housing[1]	11	78,395
Less: fair value hedging adjustment		(10)
Less: housing loans made to corporate customers		(2,224)
Add: unsettled re-purchases of mortgages from the NZ Branch		7
On-balance sheet residential mortgage exposures subject to the IRB approach	B4	76,168
Add: off-balance sheet residential mortgage exposures subject to the IRB approach	B4	8,232
Total residential mortgage exposures subject to the IRB approach (as per LVR analysis)	B4	84,400

[1] Term loans – housing includes loans secured over residential property for owner-occupier, residential property investment and business purposes.

B3. ASSET QUALITY

Past due assets

	2018				2017			
	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	595	186	639	1,420	556	187	642	1,385
At least 30 days but less than 60 days past due	109	31	39	179	85	34	171	290
At least 60 days but less than 90 days past due	105	20	3	128	95	18	12	125
At least 90 days past due	152	34	19	205	132	31	19	182
Total past due but not impaired	961	271	700	1,932	868	270	844	1,982

Movement in individually impaired assets

	2018				2017			
	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
Balance at beginning of the period	31	20	306	357	57	27	342	426
Additions	21	107	267	395	35	106	430	571
Amounts written off	(1)	(77)	(71)	(149)	(1)	(82)	(50)	(133)
Deletions	(26)	(25)	(231)	(282)	(60)	(31)	(416)	(507)
Balance at end of the period	25	25	271	321	31	20	306	357
Individual provision	21	11	98	130	25	6	121	152

Movement in balances of individual credit impairment allowances

	2018				2017			
	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
Balance at beginning of the period	25	6	121	152	37	6	108	151
Individual credit impairment charge / (release)								
New and increased provisions	7	90	116	213	5	94	133	232
Write-backs	(9)	(8)	(66)	(83)	(16)	(12)	(67)	(95)
Recoveries of amounts previously written off	-	(21)	(9)	(30)	-	(20)	(11)	(31)
Individual credit impairment charge / (release)	(2)	61	41	100	(11)	62	55	106
Bad debts written off	(1)	(77)	(71)	(149)	(1)	(82)	(50)	(133)
Add back recoveries of amounts previously written off	-	21	9	30	-	20	11	31
Discount unwind	(1)	-	(2)	(3)	-	-	(3)	(3)
Balance at end of the period	21	11	98	130	25	6	121	152

Movement in balances of collective credit impairment allowances

	2018				2017			
	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
Balance at beginning of the period	75	121	231	427	78	130	263	471
Charge / (release) to income statement	7	(3)	(49)	(45)	(3)	(9)	(32)	(44)
Balance at end of the period	82	118	182	382	75	121	231	427

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.

Other asset quality information

	2018				2017			
	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
Undrawn facilities with impaired customers	-	-	14	14	1	-	5	6
Other assets under administration	7	2	-	9	8	2	-	10

REGISTERED BANK DISCLOSURES

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	2018	2017	2018	2017
Common equity tier 1 capital	4.5%	11.1%	10.7%	9.5%	9.5%
Tier 1 capital	6.0%	14.4%	14.1%	13.0%	13.0%
Total capital	8.0%	14.4%	14.4%	13.0%	13.3%
Buffer ratio	2.5%	6.4%	6.2%	n/a	n/a

Capital of the Banking Group

As at 30 September 2018	NZ$m
Tier 1 capital	
Common equity tier 1 (CET1) capital	
Paid up ordinary shares issued by the Bank	11,588
Retained earnings (net of appropriations)	1,188
Accumulated other comprehensive income and other disclosed reserves	33
Less deductions from common equity tier 1 capital	
Goodwill and intangible assets, net of associated deferred tax liabilities	(3,381)
Cash flow hedge reserve	(22)
Expected losses to the extent greater than total eligible allowances for impairment	(325)
Common equity tier 1 capital	9,081
Additional tier 1 capital	
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]	55
Less deductions from additional tier 1 capital	
Surplus retained earnings of the Bonus Bonds Scheme [3]	(20)
Additional tier 1 capital	2,776
Total tier 1 capital	11,857
Tier 2 capital	-
Total capital	11,857

1 Classified as equity on the balance sheet under NZ Generally Accepted Accounting Practice (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 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 2018	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	185,616	69,019	5,521
Operational risk	n/a	6,027	482
Market risk	n/a	4,776	382
Agri business supervisory adjustment	n/a	2,325	186
Total	185,616	82,147	6,571

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.

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 2018	Probability of default %	Exposure at default NZ$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Corporate						
0 - 2	0.06	5,757	63	39	2,390	191
3 - 4	0.32	23,866	36	40	10,119	810
5	0.99	12,877	33	58	7,954	636
6	2.27	4,083	33	77	3,314	265
7 - 8	12.86	1,606	38	157	2,666	213
Default	100.00	381	45	163	660	53
Total corporate exposures	1.83	48,570	38	53	27,103	2,168
Sovereign						
0	0.01	11,636	5	1	160	13
1 - 8	0.02	680	5	1	10	1
Total sovereign exposures	0.01	12,316	5	1	170	14
Bank						
0	0.03	61	65	15	10	1
1	0.03	10,323	57	25	2,748	220
2 - 4	0.12	796	64	41	347	28
5 - 8	4.56	4	48	148	7	-
Total bank exposures	0.04	11,184	58	26	3,112	249
Residential mortgages						
0 - 3	0.20	24,424	12	5	1,397	112
4	0.46	34,360	18	15	5,370	430
5	0.92	21,170	23	31	6,963	557
6	1.98	4,504	26	60	2,862	229
7 - 8	4.89	356	27	97	364	29
Default	100.00	220	19	19	42	3
Total residential mortgages exposures	0.85	85,034	18	19	16,998	1,360
Other retail						
0 - 2	0.10	561	77	49	294	24
3 - 4	0.27	4,848	78	55	2,805	224
5	1.04	1,941	72	74	1,526	122
6	2.23	1,902	71	90	1,808	145
7 - 8	8.11	1,649	82	128	2,230	178
Default	100.00	80	77	48	42	3
Total other retail exposures	2.64	10,981	76	75	8,705	696
Total credit risk exposures subject to the IRB approach	1.14	168,085	30	31	56,088	4,487

Credit risk exposures subject to the IRB approach have been derived in accordance with *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) and other relevant correspondence with RBNZ setting out prescribed credit risk estimates.

REGISTERED BANK DISCLOSURES

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

IRB credit exposures: On-balance sheet, off-balance sheet and market related contracts

As at 30 September 2018	Total exposure or principal amount NZ$m	Exposure at default NZ$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures						
Corporate	34,724	34,604	33	53	19,298	1,543
Sovereign	12,178	11,855	5	1	120	10
Bank	5,907	5,262	56	19	1,073	86
Residential mortgages	76,168	76,391	19	19	15,761	1,261
Other retail	5,358	5,449	73	93	5,372	429
Total on-balance sheet exposures	134,335	133,561	25	29	41,624	3,329
Off-balance sheet exposures						
Corporate	12,154	11,210	48	48	5,684	455
Sovereign	346	313	5	1	2	-
Bank	1,787	1,445	53	18	272	22
Residential mortgages	8,232	8,643	16	14	1,237	99
Other retail	5,514	5,532	79	57	3,333	267
Total off-balance sheet exposures	28,033	27,143	44	37	10,528	843
Market related contracts						
Corporate	87,191	2,756	61	73	2,121	170
Sovereign	14,642	148	5	30	48	4
Bank	962,075	4,477	61	37	1,767	141
Total market related contracts	1,063,908	7,381	60	50	3,936	315
Total credit risk exposures subject to the IRB approach	1,226,276	168,085	30	31	56,088	4,487

Other IRB credit exposures

As at 30 September 2018	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Cash	204	-	-	-
New Zealand dollar denominated claims on the Crown and RBNZ	1,734	-	-	-
Other assets	1,502	100	1,592	127
Total other IRB credit risk exposures	3,440	44	1,592	127

Other IRB credit exposures have been calculated in accordance with BS2B.

Additional mortgage information

As required by RBNZ, loan-to-valuation-ratios (LVR) 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.

As at 30 September 2018	On-balance sheet NZ$m	Off-balance sheet NZ$m	Total NZ$m
LVR range			
Does not exceed 60%	37,789	5,565	43,354
Exceeds 60% and not 70%	17,267	1,320	18,587
Exceeds 70% and not 80%	17,234	1,035	18,269
Does not exceed 80%	72,290	7,920	80,210
Exceeds 80% and not 90%	2,617	131	2,748
Exceeds 90%	1,261	181	1,442
Total	76,168	8,232	84,400

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Specialised lending subject to the slotting approach

As at 30 September 2018	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures				
Strong	4,594	70	3,408	273
Good	5,735	90	5,472	438
Satisfactory	322	115	393	31
Weak	89	250	234	19
Default	39	-	-	-
Total on-balance sheet exposures	10,779	83	9,507	761

As at 30 September 2018	Exposure amount NZ$m	Exposure at default NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Off-balance sheet exposures					
Undrawn commitments and other off balance sheet exposures	1,484	1,302	82	1,135	91
Market related contracts	2,006	102	130	141	11
Total off-balance sheet exposures	3,490	1,404	86	1,276	102

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

The supervisory categories of specialised lending above are associated with specific risk-weights. These categories broadly correspond to the following external credit assessments using 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 30 September 2018	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures				
Corporates	130	76	105	8
Default	1	150	1	-
Total on-balance sheet exposures	131	77	106	8

As at 30 September 2018	Exposure amount NZ$m	Average credit conversion factor %	Exposure at default NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Off-balance sheet exposures						
Total off balance sheet exposures subject to the standardised approach	588	60	352	97	361	29
Market related contracts	222,026	1	1,418	4	61	5

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

Equity exposures

As at 30 September 2018	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
All equity holdings not deducted from capital	7	400	28	2

Equity exposures have been calculated in accordance with BS2B.

REGISTERED BANK DISCLOSURES

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Credit risk mitigation

As at 30 September 2018, under the IRB approach, the Banking Group had NZ$912 million of Corporate exposures covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

Operational risk

The Banking Group uses the Advanced Measurement Approach for determining its regulatory capital requirement for operational risk calculated in accordance with BS2B. As at 30 September 2018, the Banking Group had an implied risk weighted exposure of NZ$6,027 million for operational risk and an operational risk capital requirement of NZ$482 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 2018.

	Implied risk weighted exposure		Aggregate capital charge	
As at 30 September 2018	Period end NZ$m	Peak NZ$m	Period end NZ$m	Peak NZ$m
Interest rate risk	4,733	5,782	379	463
Foreign currency risk	42	152	3	12
Equity risk	1	1	-	-
	4,776		382	

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, insurance risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk, value in-force risk, business retention risk and software risk. The Banking Group's internal capital allocation for these other material risks is NZ$389 million. (2017: NZ$421 million).

Information about Ultimate Parent Bank and Overseas Banking Group

APRA Basel III capital ratios	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
	2018	2017	2018	2017
Common equity tier 1 capital	11.4%	10.6%	11.6%	10.5%
Tier 1 capital	13.4%	12.6%	13.6%	12.7%
Total capital	15.2%	14.8%	15.6%	14.8%

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 Asia Pacific) 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 30 September 2018 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2018. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 30 September 2018, 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.

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

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 18	30 Jun 18
Quarterly average 1-week mismatch ratio	5.3%	4.7%
Quarterly average 1-month mismatch ratio	5.1%	4.5%
Quarterly average core funding ratio	89.5%	89.6%

B5. CONCENTRATIONS OF CREDIT RISK TO INDIVIDUAL COUNTERPARTIES

The Banking Group measures its concentration of credit risk 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 18	Peak end of day over 6 months to 30 Sep 18
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	3	-
- 15% to less than 20% of CET1 capital	-	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	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
- 15% to less than 20% 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 2018				
Gross amount, before netting	7,907	66.7%	-	0.0%
Amount netted	5,475	46.2%	-	0.0%
Aggregate credit exposure (on partial bilateral net basis)	2,432	20.5%	-	0.0%
Peak end-of day aggregate credit exposure over the year ended 30 September 2018				
Gross amount, before netting	11,196	94.4%	-	0.0%
Amount netted	7,718	65.1%	-	0.0%
Aggregate credit exposure (on partial bilateral net basis)	3,478	29.3%	-	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 2018 was 60%. No limit changes have occurred over the year to 30 September 2018. 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$698 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 2018.

Aggregate amount of individual credit impairment allowances against credit exposures to connected persons

There were no individual credit impairment allowances provided against credit exposures to connected persons as at 30 September 2018.

B7. INSURANCE BUSINESS, SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITES AND MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS

Insurance business

The Banking Group conducts insurance business through its subsidiary OnePath. The Banking Group's aggregate amount of insurance business comprises the total consolidated assets of OnePath of NZ$940 million (2017: NZ$921 million), which is 0.6% (2017: 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 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 Nominees Limited, which is the appointed custodian for the ANZ Securities share and bond trading service.
Funds management	The Banking Group provides the following funds management services: • *Managed Investment Schemes (MIS):* 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. • *Discretionary Investment Management Service (DIMS):* The Bank is a licensed DIMS provider. This service is offered to ANZ Private customers. • *Other investment portfolios:* 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 23 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 products provided by OnePath.

The Banking Group also markets and distributes other personal and business insurance products provided by or arranged through a number of other insurance partners. None of these other insurance partners are affiliated insurance entities or affiliated insurance groups.

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.

REGISTERED BANK DISCLOSURES

B7. INSURANCE BUSINESS, SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITES AND MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS (continued)

Amounts represented by funds management and securitisation activities

	2018 NZ$m	2017 NZ$m
Funds under management:		
KiwiSaver[1]	**12,923**	11,047
Bonus Bonds Scheme[2]	**3,300**	3,405
Other managed funds[1]	**2,261**	1,984
ANZ PIE Fund[2]	**1,656**	1,381
Discretionary Investment Management Service (DIMS)[3]	**7,678**	7,193
Other investment portfolios[1]	**2,847**	3,480
Total funds under management	**30,665**	28,490
Funds under custodial arrangements[4]	**7,970**	7,951
Other funds held or managed subject to fiduciary responsibilities[5]	**1,270**	1,325
Outstanding securitised assets originated by the Banking Group - carrying amount of Covered Bonds	**3,929**	5,315

1 Managed by ANZ New Zealand Investments Limited.
2 Managed by ANZ Investment Services (New Zealand) Limited.
3 Managed by the Bank.
4 Includes NZ$60 million (2017: NZ$370 million) held in custody by ANZ New Zealand Securities Nominees Limited which are not included in funds under management. All other funds held in custody are included in funds under management.
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 2018, 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 2018 was less than NZ$0.1 million (2017: less than NZ$0.1 million) which was 0.0% (2017: 0.0%) of the Banking Group's tier 1 capital and 0.0% (2017: 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.

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 financial 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 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 per the Banking Group's RMS, and how these risks are managed are summarised below:

Key material risks

Risk Type	Description	Management of Risks
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.	The Banking Group pursues an active approach to Capital Management through ongoing review, and Board approval, of the level and composition of the Banking Group's capital base against key policy objectives.
Compliance Risk	The probability and impact of an event that results in a breach of any of the following that apply to the Banking Group's businesses: laws, regulations, industry standards, codes, internal policies, internal procedures, or principles of good governance.	Key features of our Compliance 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.
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.	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.
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 the Banking Group's 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.

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES (continued)

Risk Type	Description	Management of Risks
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.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational Risk: • includes technology risk, cyber risk, legal risk and conduct risk, and damage arising from inadequate or failed internal processes, people and systems; but • excludes Strategic Risk.	The Banking Group operates 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 two-way 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.
Reputation Risk	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 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 manage 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 Reputation 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 above.

Refer to Note 15 Financial Risk Management for the disclosures required under NZ IFRS 7 *Financial Instruments: Disclosures.*

Capital adequacy

Refer to Note 21 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.

B8. RISK MANAGEMENT POLICIES (continued)

Internal Audit Function of the Banking Group

Refer to Note 15 Financial Risk Management for details of the Internal Audit Function.

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 internal management reporting line for the General Manager, Internal Audit is to the CEO;
- 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 Provision for Credit Impairment 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 Advanced Internal Ratings Based (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 Internal Ratings Based (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).

REGISTERED BANK DISCLOSURES

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
Equity		IRB
Other assets	All other assets not falling within any of the above classes	IRB

Standardised approach

Exposure Class	Exposure Type	Reason for Standardised Approach	Future Treatment
Corporate	Merchant card prepayment exposures	System constraints	Move to IRB
	Corporate credit cards	System constraints	Move to IRB
Bank	Qualifying Central Counterparty (QCCP)	Required by Basel III	Standardised

Additional information about operational risk

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

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

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

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

Controls surrounding credit risk rating systems

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

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

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

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

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

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 2018, after due enquiry, each Director believes that:

- ANZ Bank New Zealand Limited has complied with all Conditions of Registration that applied during that period except as noted on page 65;
- 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, 15 November 2018.

Antony Carter

Shayne Elliott

David Hisco

Michelle Jablko

Rt Hon Sir John Key, GNZM AC

Mark Verbiest

Joan Withers

INDEPENDENT AUDITOR'S REPORT

KPMG

TO THE SHAREHOLDER OF ANZ BANK NEW ZEALAND LIMITED

REPORT ON THE BANKING GROUP DISCLOSURE STATEMENT

OPINION

In our opinion, the accompanying consolidated financial statements of ANZ Bank New Zealand Limited and its subsidiaries (the Banking Group) on pages 4 to 56:

- give a true and fair view of the Banking Group's financial position as at 30 September 2018 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 Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order) and is included in section, 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 states the matters to which it relates in accordance with those schedules.

We have audited the accompanying consolidated financial statements and registered bank disclosures in section B2, B3, B5, B6, B7 and B8 which comprise:

- the consolidated statement of financial position as at 30 September 2018;
- 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 Order.

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 (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.

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.

PROVISION FOR CREDIT IMPAIRMENT AND DISCLOSURES FOR THE EXPECTED IMPACT OF NZ IFRS 9 *FINANCIAL INSTRUMENTS*

The Key Audit Matter

The provision for credit impairment is a key audit matter as the Banking Group has significant credit risk exposure to a large number of counterparties across a wide range of lending and industries. The value of loans and advances on the balance sheet is significant and there is a high degree of complexity and judgement involved for the Banking Group in estimating individual and collective credit impairment provisions against these loans. These features resulted in significant audit effort to address the risks around loan recoverability and the determination of related provisions.

In preparation for adoption of NZ IFRS 9 *Financial Instruments* on 1 October 2018, the Banking Group disclosed the expected impact of adoption. This added effort to our audit due to the complexity of the accounting standard and its expected pervasive impact on the industry. We focused on the Banking Group's disclosure of the expected impact of measuring expected credit losses (ECLs) on loans and advances and the significant judgement exercised by the Banking Group. The Banking Group's models to calculate ECLs are inherently complex, and judgement is applied in determining the correct construct of the models. There are also a number of key assumptions made by the Banking Group in applying the accounting standard requirements to the models, including the selection and input of forward-looking information.

How the matter was addressed in our audit

Our audit procedures for the individual and collective provision for credit impairment and disclosures for the expected impact of NZ IFRS 9 *Financial Instruments* applicable on 1 October 2018 included:

Provisions against specific individual loans (individual provision)

- Testing the key controls over counterparty risk grading for wholesale loans (larger customer exposures that are monitored individually). We tested the approval of new lending facilities against the Banking Group's lending policies, the performance of annual loan assessments, and controls over the monitoring of counterparty credit quality. This included testing controls over the identification of exposures showing signs of stress, either due to internal factors specific to the counterparty or external macroeconomic factors, and testing the timeliness of and the accuracy of counterparty risk assessments and risk grading against the requirements of the Banking Group's lending policies;
- Performing credit assessments of a sample of wholesale loans managed 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, their assessment of loan recoverability and the impact on the credit provision. To do this, we reviewed the information on the Banking Group's loan file, discussed the case with the loan officer and management, and performed our own assessment of recoverability. This involved using our understanding of relevant industries and the macroeconomic environment, and comparing assumptions of inputs used by the Banking Group in recoverability assessments to externally sourced evidence, such as commodity prices, publicly available audited financial statements, and comparable external valuations of collateral held; and
- Evaluating the Banking Group's oversight of retail loan portfolios (smaller customer exposures not monitored individually), with a focus on controls over delinquency statistics monitoring. We tested a sample of provisions held against different loan products, based on their delinquency profile, and challenged assumptions made in respect of expected recoveries, primarily from collateral held.

Provisions estimated across loan portfolios (collective provision)

- Testing the Banking Group's processes to validate the models used to calculate collective provisions, and evaluating the Banking Group's model methodologies against established market practices and criteria in the accounting standards;
- Testing the key controls within IT systems used to calculate the collective provision, specifically those relating to data management and the completeness and accuracy of data transfer from underlying source systems to the collective provision models;
- Testing the accuracy of key inputs into models by checking a sample of balances to the general ledger and risk ratings to source systems;
- Challenging the key assumptions in the models such as emergence periods, probability of default and loss given default for a sample of retail and wholesale portfolios. We compared modelled estimates against actual losses incurred by the Banking Group; and
- Re-performing the calculation of collective provisions, for a sample of retail and wholesale portfolios and using a KPMG-constructed calculation tool to determine the accuracy of model output.

We also challenged key assumptions in the components of the Banking Group's collective provision balance held above modelled provision estimates. This included:

- Evaluating inputs to the concentration risk and economic cycle provisions 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 provisions by considering model or data deficiencies identified by the Banking Group's model validation processes; and
- Assessing the completeness of additional provisions by checking the consistency of risks identified in the portfolios to their inclusion in the Banking Group's assessment.

NZ IFRS 9 Financial Instruments

We assessed the Banking Group's disclosures for the expected impact of NZ IFRS 9 *Financial Instruments* which is applicable on 1 October 2018. Together with KPMG credit risk and economics specialists, our procedures included:

- Assessing the Banking Group's significant accounting policies against the requirements of the accounting standard;
- Assessing the Banking Group's ECL modelling methodology and for a sample of models testing key credit modelling assumptions incorporated in the ECL models against the requirements of the standard and underlying accounting records;
- Assessing forward-looking economic assumptions and the development of economic scenarios against external economic information, and the application into the ECL models;
- Testing data reconciliation controls between the ECL models and source systems;
- Testing the accuracy of the modelled calculations by re-performing the ECL calculations on a sample basis;
- Assessing the disclosures in the financial statements against the requirements of NZ IFRS.

VALUATION OF FINANCIAL INSTRUMENTS

The Key Audit Matter

Financial instruments held at fair value on the Banking Group's balance sheet include available-for-sale assets, trading securities, derivative assets and liabilities, investments backing insurance contract liabilities, certain debt securities, and other assets and liabilities designated as measured at fair value through profit or loss.

INDEPENDENT AUDITOR'S REPORT

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:

- Financial instruments held at fair value are significant (15% of assets and 7% of liabilities);
- The significant volume and range of products transacted, increases the risk of inconsistencies in transaction management processes that could lead to inaccurate valuation;
- Determining the fair value of trading securities and derivatives involves a significant level of judgement by the Banking Group, increasing the risk of error, and adding complexity to our audit. The level of judgement increases 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, and industry practice is evolving as to how the impact of both funding and credit risk is incorporated within the valuation of certain derivative instruments. This increased our audit effort in this area and necessitated the involvement of valuation specialists.

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 transaction management and 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 product control function;
- Testing the management review and approval of model construction and validation, aimed at assessing the validity and robustness of underlying valuation models; and
- Testing the Banking Group's data validation controls, such as those over key inputs in generating the fair value to market data where fair values were determined by front office teams.

We tested the valuation of financial instruments with both observable and unobservable inputs. Our specific testing involved valuation specialists and included:

- Re-performing the valuation of 'level 1' and 'level 2' available for sale assets 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;
- Using independent models, re-calculating 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;
- Where the fair value of derivatives and other financial assets and liabilities were determined using unobservable inputs ('level 3' instruments), challenging the Banking Group's valuation model by testing the key inputs used to comparable data in the market, including the use of proxy instruments and available alternatives. We compared the Banking Group's valuation methodology to industry practice and the criteria in the accounting standards; and
- Evaluating the appropriateness of the Banking Group's valuation methodology for derivative financial instruments, having regard to current and emerging derivative valuation practices across a range of peer institutions and against the required criteria in the accounting standards. We tested adjustments made to valuations, particularly funding and credit valuation adjustments on un-collateralised derivatives. In particular, for a sample of individual counterparties, we tested key inputs to the credit valuation adjustment calculation, including the probability of default, against observable market data. Where proxies were used, we assessed the proxy against available alternatives across a number of locations.

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. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

How the matter was addressed in our audit

We tested the control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems. Our audit procedures included:

- Testing the governance controls used by the Banking Group's technology teams and third party suppliers to monitor system integrity, by checking matters impacting the operational integrity of core systems for escalation and action in accordance with the Banking Group's policies;
- Testing the access rights given to staff by checking them to approved records, and inspecting the reports over the granting and removal of access rights. We also looked for evidence of escalation of breaches;
- Testing preventative controls designed to enforce segregation of duties between users within particular systems;
- Testing the operating effectiveness of automated controls, principally relating to the automated calculation of financial transactions. We tested

the inputs used within automated calculations to source data and also tested the accuracy of the calculation logic for a sample of transactions within each identified control; and

- Testing the operating effectiveness of automated reconciliation controls, both between systems and intra-system. For a sample of identified breaks, in reconciliations, we checked that these were recorded on exception reports, and subsequently investigated and cleared by the Banking Group.

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 or the Supplementary Information relating to the Bank Financial Strength Dashboard and other information included on pages 89-92 (collectively 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION 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 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal controls 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 International Standards on Auditing (New Zealand) 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 this 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.

INDEPENDENT AUDITOR'S REPORT

REVIEW CONCLUSION ON THE REGISTERED BANK DISCLOSURES IN SECTION B4 RELATING TO CAPITAL ADEQUACY AND REGULATORY LIQUIDITY RATIOS (B4)

Based on our review, 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.

We have reviewed the registered bank disclosures as disclosed in section B4 of the Disclosure Statement for the year ended 30 September 2018. The registered bank disclosures that is required to be disclosed in accordance with Schedule 11 of the Order.

BASIS FOR 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 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.

RESPONSIBILITIES OF DIRECTORS FOR THE REGISTERED BANK DISCLOSURES IN SECTION B4

The Directors are responsible for the preparation of registered bank disclosures in section B4 that is required to be prepared and disclosed in accordance with Schedule 11 of the Order and described in section B4 to the Disclosure Statement.

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 International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the registered bank disclosures in section B4.

USE OF THE INDEPENDENT AUDITOR'S REPORT

This Independent Auditor's Report is made solely to the shareholder as a body. 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 as a body for our work, this 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 Matthew Prichard.

For and on behalf of

KPMG

KPMG
Auckland

15 November 2018

BANK FINANCIAL STRENGTH DASHBOARD

This section does not form part of the Disclosure Statement. It contains information in respect of the Banking Group included on the Bank Financial Strength Dashboard (Dashboard) published on RBNZ's website. There is no requirement for the Directors to review or approve this information.

Amounts below may differ slightly from those published by RBNZ due to rounding differences. The tables include reconciliations to amounts included in the Disclosure Statement where there are classification differences between the financial statements and the Dashboard.

Dashboard

Other information

BANK FINANCIAL STRENGTH DASHBOARD

D1. CREDIT RATINGS

As at 30 September 2018	Credit rating
S&P Global	AA-
Fitch	AA-
Moody's	A1

D2. CAPITAL ADEQUACY

Capital ratios

As at 30 September 2018	
Total capital ratio	14.4%
Common equity tier 1 (CET1) capital ratio	11.1%
Tier 1 capital ratio	14.4%
Buffer ratio	6.4%
Total capital ratio regulatory minimum	8.0%

Capital

As at 30 September 2018	NZ$m
CET1 capital	12,809
CET1 deductions	(3,728)
Net CET1 capital	9,081
Total additional tier 1 capital	2,776
Total tier 1 capital	11,857
Total capital	11,857

Risk weighted assets

		Classification differences			
As at 30 September 2018	Disclosure Statement NZ$m	Default exposures NZ$m	Credit valuation adjustments NZ$m	Exposure categories NZ$m	Dashboard NZ$m
Sovereign / quasi-sovereign	170	-	(46)	-	124
Public sector entities	-	-	(325)	669	344
Registered banks	3,112	-	(576)	(669)	1,867
Corporates	27,103	(658)	(892)	10,724	36,277
Retail / Residential mortgages	16,998	(42)	-	-	16,956
Other retail	8,705	(42)	-	(8,663)	-
Specialised lending exposures subject to slotting approach	10,783	-	(59)	(10,724)	-
Exposures subject to standardised approach	528	-	-	(528)	-
Problem loans	-	742	-	-	742
Equity holdings	28	-	-	-	28
Credit risk supervisory adjustment	-	-	-	2,325	2,325
All other assets	1,592	-	1,898	9,191	12,681
Credit risk	69,019	-	-	2,325	71,344
Market risk	4,776	-	-	-	4,776
Operational risk	6,027	-	-	-	6,027
Agri business supervisory adjustment	2,325	-	-	(2,325)	-
Total risk weighted assets	82,147	-	-	-	82,147

D3. ASSET QUALITY

As at 30 September 2018	Housing NZ$m	Consumer NZ$m	Business NZ$m	Agriculture NZ$m	All other NZ$m	Total NZ$m
Total loans	75,847	3,574	28,821	17,427	1,389	127,058
Impaired loans	35	11	76	154	45	321
Loans 90 days past due but not impaired	151	24	27	3	-	205
Total non-performing loans	186	35	103	157	45	526
Non-performing loans ratio (%)	0.25%	0.98%	0.36%	0.90%	3.24%	0.41%
Individual provisions	8	6	45	35	36	130
Collective provisions	72	64	92	43	111	382
On-balance sheet residential mortgage exposures with LVRs that:						
Exceeds 80% and not 90%						3.4%
Exceeds 90%						1.7%

A reconciliation of the amounts in this table to the financial statements is included in the Other Information on page 92.

D4. PROFITABILITY / PERFORMANCE

	Financial statements		Classification differences	
	For the 12 months ended 30 September 2018	Less: For the 9 months ended 30 June 2018	Funds management income and other commissions	Dashboard
	NZ$m	NZ$m	NZ$m	NZ$m
Interest income	6,390	(4,767)	-	1,623
Interest expense	3,240	(2,415)	-	825
Net interest income	3,150	(2,352)	-	798
Gains/losses on trading and hedging	250	(158)	-	92
Fee and commission income	394	(300)	69	163
All other income	482	(368)	(69)	45
Operating expenses	1,517	(1,121)	-	396
Impaired asset expense	55	(78)	-	(23)
Profit before tax	2,704	(1,979)	-	725
Tax expense	751	(547)	-	204
Profit after tax	1,953	(1,432)	-	521
Return on assets (%)				1.3%
Return on equity (%)				15.6%
Net interest margin (%)				2.2%

D5. FINANCIAL POSITION

		Classification differences			
As at 30 September 2018	Financial statements NZ$m	Other bank deposits and other assets NZ$m	Securities purchased under agreements to re-sell NZ$m	Subordinated debt issued to NZ Branch NZ$m	Dashboard NZ$m
Cash and bank deposits[1]	4,119	40	(136)	-	4,023
Debt securities held[2]	14,653	(78)	-	-	14,575
Net loans and advances	126,466	-	-	-	126,466
Derivatives in an asset position	8,086	-	-	-	8,086
All other assets	5,688	38	136	-	5,862
Total assets	159,012	-	-	-	159,012
Deposits	104,055	-	-	-	104,055
Debt securities issued[3]	28,531	-	-	(1,941)	26,590
Other borrowings[4]	1,402	1,336	-	1,941	4,679
Derivatives in a liability position	8,095	-	-	-	8,095
All other liabilities	3,820	(1,336)	-	-	2,484
Total liabilities	145,903	-	-	-	145,903
Equity	13,109	-	-	-	13,109

1 Comprises cash and collateral paid
2 Comprises trading securities, investments backing insurance contract liabilities and available-for-sale assets
3 Comprises debt issuances plus certificates of deposit and commercial paper from deposits and other borrowings
4 Comprises collateral received and the remaining items of deposits and other borrowings

D6. LIQUIDITY

3 months to 30 September 2018	
Quarterly average core funding ratio	89.5%
Quarterly average 1-month mismatch ratio	5.1%
Quarterly average 1-week mismatch ratio	5.3%

D7. LARGE EXPOSURES

As at 30 September 2018	
Top 5 credit exposures to non-bank counterparties as a ratio of CET1 capital	51.3%
Credit exposures to non-bank counterparties that are greater than 10% of CET1 capital	2
Top 5 credit exposures to banks as a ratio of CET1 capital	48.4%
Credit exposures to banks that are greater than 10% of CET1 capital	3

The Supplementary Information does not form part of the Disclosure Statement

OTHER INFORMATION

Reconciliation of total loans by industry and sector

The financial statements and Dashboard include amounts for total loans which are based on different definitions. The table below reconciles the various amounts. This information does not form part of the Disclosure Statement.

Housing loans and residential mortgage definitions

Housing loans comprise loans for owner occupier property use and residential investor property use. Owner occupiers are borrowers who own or are in the process of buying or building the house or flat they will live in as their principal place of residence. An owner can occupy more than one property e.g. a family home and a holiday home. Only households can have owner occupier property use loans. Investors are entities or persons borrowing for the purpose of building or purchasing residential property to rent. This includes 'Mum and dad' investor loans and any person(s) that have a separate residential investor property use loan which is not for their normal business purpose.

Residential mortgage exposures used in the loan-to-valuation ratio analysis are based on the definition of residential mortgage loans as defined in the Banking Supervision Handbook document *Capital Adequacy Framework (internal models based approach)* (BS2B). This metric is based on a collateral definition and may include some other lending that is not defined as Housing lending in the asset quality section of the Dashboard. See the Banking Supervision Handbook for a more detailed definition.

As at 30 September 2018	Note	Housing NZ$m	Consumer NZ$m	Business NZ$m	Agriculture NZ$m	All other[1] NZ$m	Total NZ$m
Total loans per Balance Sheet	11	78,395	n/a	n/a	n/a	48,509	126,904
Fair value hedge adjustment		(10)	-	-	-	10	-
Business loans secured by residential property		(2,538)	-	-	317	2,221	-
Residential investor property		(21,101)	-	-	49	21,052	-
Other household and agriculture industry loans		-	3,574	-	17,478	(21,052)	-
Concentration of loans by industry[2]	15	54,746	3,574	-	17,844	50,740	126,904
Fair value hedge adjustments		-	-	-	-	(10)	(10)
Unearned income on finance leases		-	-	-	-	(204)	(204)
Deposit components of overdraft product		-	-	-	-	368	368
Residential investor property		21,101	-	-	(49)	(21,052)	-
Business lending		-	-	28,462	(51)	(28,411)	-
Loans by purpose (RBNZ series S31)		75,847	3,574	28,462	17,744	1,431	127,058
Other business loans secured by residential property		-	-	359	(317)	(42)	-
Total loans per Dashboard	D3	75,847	3,574	28,821	17,427	1,389	127,058

1 All other in RBNZ series S31 and the Dashboard comprises: Depository and other financial institutions, Central and Local Government, Non-profit institutions serving households.
2 Household exposures (resident and non-resident) in Note 15 Financial Risk Management (Concentrations of Credit Risk) on page 32 comprise Housing and Consumer.

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ANZ BANK NEW ZEALAND LIMITED
ANNUAL REPORT AND REGISTERED BANK DISCLOSURE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2017
NUMBER 87 | ISSUED NOVEMBER 2017

ANNUAL REPORT AND REGISTERED BANK DISCLOSURE STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2017

CONTENTS

ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2017

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 2017 and the audit report on those financial statements.

For and on behalf of the Board of Directors:

John Judge
Chairman
15 November 2017

David Hisco
Executive Director
15 November 2017

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 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.

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.

INCOME STATEMENT

	Note	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Interest income	3	6,198	6,423
Interest expense	3	3,161	3,421
Net interest income		3,037	3,002
Net trading gains	4	226	12
Net funds management and insurance income	4	329	414
Other operating income	4	378	421
Share of associates' profit		5	5
Operating income		3,975	3,854
Operating expenses	5	1,468	1,599
Profit before credit impairment and income tax		2,507	2,255
Credit impairment charge	14	62	150
Profit before income tax		2,445	2,105
Income tax expense	6	680	570
Profit after income tax		1,765	1,535

STATEMENT OF COMPREHENSIVE INCOME

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Profit after income tax	1,765	1,535
Items that will not be reclassified to profit or loss		
Actuarial gain on defined benefit schemes	21	18
Income tax expense relating to items not reclassified	(6)	(5)
Total items that will not be reclassified to profit or loss	15	13
Items that may be reclassified subsequently to profit or loss		
Unrealised gains / (losses) recognised directly in equity	(32)	91
Realised losses transferred to the income statement	12	9
Income tax credit / (expense) relating to items that may be reclassified	6	(28)
Total items that may be reclassified subsequently to profit or loss	(14)	72
Total comprehensive income for the year	1,766	1,620

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

BALANCE SHEET

	Note	30/09/2017 NZ$m	30/09/2016 NZ$m
Assets			
Cash	9	2,338	2,274
Settlement balances receivable		536	396
Collateral paid		1,415	2,310
Trading securities	10	7,663	11,979
Investments backing insurance contract liabilities		123	119
Derivative financial instruments	11	9,878	21,110
Available-for-sale assets	12	6,360	2,859
Net loans and advances	13	117,627	114,623
UDC assets held for sale	29	3,065	-
Other assets		683	701
Life insurance contract assets		636	630
Investments in associates		7	7
Premises and equipment		367	387
Goodwill and other intangible assets	24	3,275	3,424
Total assets		153,973	160,819
Interest earning and discount bearing assets		138,795	134,489
Liabilities			
Settlement balances payable		1,840	1,771
Collateral received		613	529
Deposits and other borrowings	15	101,657	99,066
Derivative financial instruments	11	9,826	21,956
Current tax liabilities		39	21
Deferred tax liabilities		187	145
UDC liabilities held for sale	29	1,088	-
Payables and other liabilities		1,151	1,119
Employee entitlements		119	126
Other provisions		66	80
Unsubordinated debt	16	21,323	20,014
Subordinated debt	17	3,283	3,282
Total liabilities		141,192	148,109
Net assets		12,781	12,710
Equity			
Share capital	25	8,888	8,888
Reserves		48	62
Retained earnings		3,845	3,760
Total equity		12,781	12,710
Interest and discount bearing liabilities		119,814	115,961

For and on behalf of the Board of Directors:

John Judge
Chairman
15 November 2017

David Hisco
Executive Director
15 November 2017

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

CASH FLOW STATEMENT

	Note	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Cash flows from operating activities			
Interest received		6,223	6,443
Dividends received		5	2
Net funds management and insurance income		344	332
Fees and other income received		569	642
Interest paid		(3,100)	(3,416)
Operating expenses paid		(1,374)	(1,495)
Income taxes paid		(605)	(648)
Cash flows from operating profits before changes in operating assets and liabilities		2,062	1,860
Net changes in operating assets and liabilities:			
Change in settlements receivable		(14)	(19)
Change in collateral paid		895	(381)
Change in trading securities		4,210	164
Change in derivative financial instruments		10	(2,028)
Change in available-for-sale assets		(3,476)	(1,381)
Change in insurance investment assets		(4)	32
Change in loans and advances		(6,761)	(9,435)
Proceeds from sale of loans and advances to NZ Branch		481	697
Change in settlements payable		2	(67)
Change in collateral received		84	(1,158)
Change in deposits and other borrowings		3,356	9,142
Net changes in operating assets and liabilities		(1,217)	(4,434)
Net cash flows provided by / (used in) operating activities	8	845	(2,574)
Cash flows from investing activities			
Proceeds from sale of premises and equipment		9	17
Proceeds from sale of insurance policies		-	23
Purchase of intangible assets		(14)	(29)
Purchase of premises and equipment		(44)	(71)
Net cash flows used in investing activities		(49)	(60)
Cash flows from financing activities			
Proceeds from issue of unsubordinated debt		4,922	7,380
Proceeds from issue of subordinated debt		-	938
Redemptions of unsubordinated debt		(3,899)	(4,477)
Dividends paid		(1,695)	(1,363)
Net cash flows provided by / (used in) financing activities		(672)	2,478
Net increase / (decrease) in cash and cash equivalents		124	(156)
Cash and cash equivalents at beginning of the year		2,315	2,471
Cash and cash equivalents at end of the year	8	2,439	2,315

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital NZ$m	Available-for-sale revaluation reserve NZ$m	Cash flow hedging reserve NZ$m	Retained earnings NZ$m	Total equity NZ$m
As at 1 October 2015		8,888	-	(10)	3,575	12,453
Profit after income tax		-	-	-	1,535	1,535
Unrealised gains / (losses) recognised directly in equity		-	(2)	93	-	91
Realised losses transferred to the income statement		-	2	7	-	9
Actuarial gain on defined benefit schemes		-	-	-	18	18
Income tax expense on items recognised directly in equity		-	-	(28)	(5)	(33)
Total comprehensive income for the year		-	-	72	1,548	1,620
Ordinary dividend paid	25	-	-	-	(1,350)	(1,350)
Preference dividend paid	25	-	-	-	(13)	(13)
As at 30 September 2016		8,888	-	62	3,760	12,710
Profit after income tax		-	-	-	1,765	1,765
Unrealised gains / (losses) recognised directly in equity		-	7	(39)	-	(32)
Realised losses transferred to the income statement		-	-	12	-	12
Actuarial gain on defined benefit schemes		-	-	-	21	21
Income tax credit / (expense) on items recognised directly in equity		-	(2)	8	(6)	-
Total comprehensive income for the year		-	5	(19)	1,780	1,766
Ordinary dividend paid	25	-	-	-	(1,684)	(1,684)
Preference dividend paid	25	-	-	-	(11)	(11)
As at 30 September 2017		8,888	5	43	3,845	12,781

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

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 Financial Markets Conduct Act 2013 and the Order. The Banking Group's financial statements are for the Bank's consolidated group, which includes its subsidiaries and associates.

These financial statements 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).

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(ii) Use of estimates and assumptions

The preparation of these financial statements requires the use of management judgements, estimates and assumptions that affect reported amounts and the application of policies.

Discussion of the critical accounting estimates, which include complex or subjective decisions or assessments, are covered in note 2. Such estimates are reviewed on an ongoing basis.

(iii) Basis of measurement

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

- derivative financial instruments
- available-for-sale financial assets
- financial instruments held for trading
- financial instruments designated at fair value through profit and loss.

(iv) Rounding

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

(v) Principles of consolidation

Subsidiaries

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 Banking Group when it is determined that control over the entity exists. Control is deemed to exist when the Banking Group is exposed, 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. Power is assessed by examining existing rights that give the Banking Group the current ability to direct the relevant activities of the entity.

At times, the determination of control can be judgemental. Further detail on the judgements involved in assessing control has been provided in note 2.

The effect of all transactions between entities in the Banking Group is eliminated.

Associates

The Banking Group applies the equity method of accounting for associates.

(vi) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Banking Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The Banking Group's financial statements are presented in New Zealand dollars, which is the Banking Group's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

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

NOTES TO THE FINANCIAL STATEMENTS

(B) Operating income

(i) Net Interest income

Interest income and expense

Interest income and expense is recognised in profit or loss using the effective interest method. This method uses the effective interest rate of a financial asset or financial liability to calculate its 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, the expected life is determined on the basis of historical behaviour of the particular asset portfolio – taking into account contractual obligations and prepayment experience.

Fees and costs, which form an integral part of the financial instruments (for example loan origination fees and costs), are recognised using the effective interest method. This is presented as part of interest income or expense depending on whether the underlying financial instrument is a financial asset or liability.

(ii) Fee and commission income

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

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

(C) Income tax

(i) Income tax expense

Income tax expense comprises both current and deferred taxes and is based on accounting profit adjusted for differences in the accounting and tax treatments of income and expenses (that is, taxable income). Tax expense is recognised in profit or loss, except to the extent to which it relates to items recognised directly in equity or other comprehensive income respectively.

(ii) Current tax expense

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

(iii) Deferred tax

Deferred tax is accounted for using the 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, a deferred tax, or liability, is recognised on the balance sheet. Deferred taxes are measured 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.

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

(D) Assets

Financial assets

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

Trading securities are financial instruments acquired principally for the purpose of selling in the short-term or which are a part of a portfolio which is managed for short-term profit-taking. Purchases and sales of trading securities are recognised on trade date and are initially designated at fair value through profit and loss, and subsequently measured in the balance sheet at their fair value with any revaluation recognised in profit and loss.

(ii) Derivative financial instruments

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 variable, which cause the value of the contract to fluctuate, are reflected in the fair value of the derivative.

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

Derivative financial instruments include forwards, futures, swaps and options.

Derivative financial instruments are recognised initially and at each reporting date at fair value. If the fair value of a derivative is: positive, then it is carried as an asset, but if it is negative, then it is carried as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes a derivative credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and a funding valuation adjustment (FVA) to account for the funding cost and benefits in the derivatives' portfolio.

NOTES TO THE FINANCIAL STATEMENTS

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

Fair value hedge

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

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The resulting adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss over the period to maturity of the hedged item.

If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in profit or loss.

Cash flow hedge

The Banking Group designates derivatives as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, a foreign exchange component of a firm commitment, or a highly probable forecast transaction. For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedges is recognised initially in other comprehensive income and then recycled to profit or loss in the periods when the hedged item will affect profit or loss. Any ineffective portion is recognised immediately in profit or loss. When the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting, the cumulative amount deferred in equity remains in the hedging reserve, and is subsequently transferred to profit or loss when the hedged item is recognised in profit or loss.

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

Derecognition of assets and liabilities

Derivative assets are removed from the balance sheet when substantially all of the risks and rewards of ownership have transferred. Derivative financial liabilities are removed from the balance sheet when the Banking Group's contractual obligations are discharged, cancelled or expired.

Derivatives that do not qualify for hedge accounting

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

(iii) Available-for-sale assets

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

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

(iv) Net loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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. Subsequently, they are measured at amortised cost using the effective interest method, net of any provision for credit impairment.

The Banking Group classifies 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. All other lease contracts are classified as operating leases.

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, then the transferred assets remain on the Banking Group's balance sheet, however if substantially all the risks and rewards are transferred then 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, then the Banking Group continues to recognise the asset to the extent of its continuing involvement.

The Banking Group separately recognises the rights and obligations retained, or created, in the transfer as assets and liabilities as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

Impairment of loans and advances

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.

Individually

If any impaired loans and advances exceed thresholds and an impairment event has been identified, then the Banking Group assesses the need for a provision individually.

Loans and advances are assessed as impaired if the Banking Group has objective evidence that they may not recover principal or interest payments (that is, a loss event has been incurred) and the Banking Group can reliably measure the impairment.

Collectively

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 the Banking Group does not assess as impaired, the Banking Group assesses them collectively in pools of assets with similar risk characteristics.

The Banking Group estimates the provision on the basis of historical loss experience for assets with credit risk characteristics similar to others in the respective collective pool. The Banking Group adjusts 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

The Banking Group measures 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. The Banking Group records the result as an expense in profit or loss in the period the Banking Group identifies the impairment and recognises a corresponding reduction in the carrying amount of loans and advances through an offsetting provision.

Uncollectible amounts

If a loan or advance is uncollectible (whether partially or in full), then the Banking Group writes off the balance (and also any related provision for credit impairment).

The Banking Group writes 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 the Banking Group recovers any cash flows from loans and advances previously written off, then the recovery is recognised 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.

Non-financial assets

(v) Goodwill

Goodwill represents the 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. Goodwill is recognised at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment. This involves using the discounted cash flows methodology to determine the expected future benefits of the cash generating units to which the acquisition relates. Where the assessment results in the goodwill balance exceeding the value of expected future benefits, the difference is charged to profit or loss. Any impairment of goodwill is not subsequently reversed.

(E) Liabilities

Financial liabilities

(i) Deposits and other borrowings

For deposits and borrowings that are not designated at fair value through profit or loss on initial recognition, the Banking Group measures them at amortised cost and recognises their interest expense using the effective interest rate method. When deposits and other borrowings are managed on a fair value basis, reduce or eliminate an accounting mismatch or contain an embedded derivative, the Banking Group designates them as fair value through profit or loss.

For deposits and other borrowings designated at fair value the Banking Group recognises 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

NOTES TO THE FINANCIAL STATEMENTS

value gain or loss is recognised directly in profit or loss. Once the Banking Group has recognised an amount in other comprehensive income, the Banking Group does not later reclassify it to profit or loss.

Securities sold under repurchase agreements represent a liability to repurchase the financial assets that remain on the Banking Group's balance sheet, since the risks and rewards of ownership remain with the Banking Group. Over the life of the repurchase agreement, the Banking Group recognises the difference between the sale price and the repurchase price and charges it to interest expense in profit or loss.

(ii) Unsubordinated debt and subordinated debt

Unsubordinated debt and subordinated debt are measured at amortised cost, except where designated at fair value through profit or loss. Where the Banking Group enters into a hedge accounting relationship, the fair value attributable to the hedged risks is reflected in adjustments to the carrying value of the debt. Interest expense is recognised using the effective interest rate method.

(F) Equity

(i) Shares

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

(ii) Reserves

Available-for-sale revaluation reserve

This reserve includes the changes in fair value and exchange differences on the Banking Group's revaluation of available-for-sale financial assets, net of deferred taxes to be realised upon disposal of the asset.

Cash flow hedging reserve

This 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 position is settled.

(G) 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 either of the following circumstances:

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

(ii) Offsetting of financial assets and liabilities

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

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

(iii) Segment reporting

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

(H) Other

(i) Contingent liabilities

Contingent liabilities are not recognised in the balance sheet but disclosed in note 23 unless it is considered remote that the Banking Group will be liable to settle the possible obligation.

(ii) 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 2017, and have not been applied by the Banking Group in preparing these financial statements.

The Banking Group has identified three standards where this applies to the Banking Group and further details are set out below.

***NZ IFRS 9 Financial Instruments* (NZ IFRS 9)**

NZ IFRS 9 was issued in September 2014. When operative, this standard will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement* (NZ IAS 39) and includes requirements for impairment, classification and measurement and general hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS

Impairment

NZ IFRS 9 replaces the incurred loss model under NZ IAS 39 with a forward-looking expected loss model. This model will be applied to financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, and certain loan commitments and financial guarantees. Under NZ IFRS 9, a three stage approach is applied to measuring expected credit losses (ECL) based on credit migration between the stages as follows:

- Stage 1: At initial recognition, a provision equivalent to 12 months ECL is recognised.
- Stage 2: Where there has been a significant increase in credit risk since initial recognition, a provision equivalent to full lifetime ECL is required.
- Stage 3: Similar to the current NZ IAS 39 requirements for individual impairment provisions, lifetime ECL is recognised for loans where there is objective evidence of impairment.

ECL are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Classification and measurement

There are three measurement classifications under NZ IFRS 9: amortised cost, fair value through profit or loss and, for financial assets, fair value through other comprehensive income. Financial assets are classified into these measurement classifications taking into account the business model within which they are managed, and their contractual cash flow characteristics.

The classification and measurement requirements for financial liabilities under NZ IFRS 9 are largely consistent with NZ IAS 39 with the exception that for financial liabilities 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. This part of the standard was early adopted by the Banking Group from 1 October 2013.

General hedge accounting

NZ IFRS 9 introduces general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks.

Transition and impact

Other than noted above under classification and measurement, NZ IFRS 9 has a date of initial application for the Banking Group of 1 October 2018.

The classification and measurement, and impairment requirements will be applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirements to restate comparative periods. The Banking Group does not intend to restate comparatives. NZ IFRS 9 provides an accounting policy choice to continue with NZ IAS 39 hedge accounting given the International Accounting Standards Board's ongoing project on macro hedge accounting. The Banking Group's current expectation is that it will continue to apply the hedge accounting requirements of NZ IAS 39.

The Banking Group is in the process of assessing the impact of the application of NZ IFRS 9 and is not yet able to reasonably estimate the impact on its financial statements.

NZ IFRS 15 Revenue from Contracts with Customers **(NZ IFRS 15)**

NZ IFRS 15 was issued in July 2014. NZ IFRS 15 contains new requirements for the recognition of revenue.

NZ IFRS 15 requires identification of distinct performance obligations within a contract and allocation of the transaction price of the contract to those performance obligations. Revenue is recognised as each performance obligation is satisfied. Variable amounts of revenue can only be recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods.

Although a significant proportion of the Banking Group's revenue is outside the scope of NZ IFRS 15, certain revenue streams are in the scope of the standard. NZ IFRS 15 is not mandatorily effective for the Banking Group until 1 October 2018. The Banking Group is in the process of assessing the impact of application of NZ IFRS 15 and is not yet able to reasonably estimate the impact on its financial statements.

NZ IFRS 15 may be applied under different transition approaches which could impact (a) revenue recognised in future periods and (b) the opening adjustment to retained earnings at the relevant date of initial application. The Banking Group has not determined which transition approach it will adopt.

NZ IFRS 16 Leases **(NZ IFRS 16)**

The final version of NZ IFRS 16 *Leases* was issued in February 2016 and is not effective for the Banking Group until 1 October 2019. NZ IFRS 16 requires a lessee to recognise its right to use the underlying leased asset, as a right-of-use asset, and obligation to make lease payments as a lease liability. NZ IFRS 16 substantially carries forward the lessor accounting requirements in NZ IAS 17 *Leases*.

The Banking Group is in the process of assessing the impact of the application of NZ IFRS 16 and is not yet able to reasonably estimate the impact on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

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

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

Critical accounting estimates and assumptions

Credit provisioning

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

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

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

Individual and collective provisioning involves the use of assumptions for estimating the amounts and timing of expected future cash flows. The process of estimating the amount and timing of cash flows involves considerable management judgement. These judgements are revised regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 14 for details of credit impairment provisions.

Critical judgements in applying the Banking Group's accounting policies

Financial instruments at fair value

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

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

Derivatives and hedging

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

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

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

The majority of outstanding derivative positions are transacted over-the-counter and therefore need to be valued using valuation techniques. Included in the determination of the fair value of derivatives is a credit valuation adjustment (CVA) to reflect the creditworthiness of the counterparty. This is influenced by the mark-to-market of the derivative trades and by the movement in the market cost of credit. Further adjustments are made to account for the funding costs inherent in the derivative. Judgement is required to determine the appropriate cost of funding and the future expected cashflows used in this funding valuation adjustment (FVA).

Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities and are often thinly capitalised with a reliance on debt financing for support.

The Banking Group assesses, at inception and periodically, whether a structured entity should be consolidated based on the accounting policy outlined in note 1. Such assessments are predominantly securitisation activities and involvement with managed funds. When

NOTES TO THE FINANCIAL STATEMENTS

assessing whether the Banking Group controls (and therefore consolidates) a structured entity, judgement is required about whether the Banking Group has power over the relevant activities as well as exposure to variable returns of the structured entity. All involvement, rights and exposure to returns are considered when assessing if control exists.

The Banking Group is deemed to have power over a managed fund when it performs the function of Manager of that managed fund. Whether the Banking Group controls the managed fund depends on whether it holds that power as principal, or as an agent for other investors. The Banking Group is considered the principal, and thus controls the managed fund, when it cannot be easily removed from the position of Manager by other investors and has variable returns through significant aggregate economic interest in that managed fund. In all other cases the Banking Group is considered to be acting in an agency capacity and does not control the managed fund.

Structured entities are consolidated when control exists. In other cases the Banking Group may simply have an interest in or may sponsor a structured entity but not consolidate it.

The Banking Group considers itself the sponsor of an unconsolidated structured entity where it is the primary party involved in the design and establishment of that structured entity and where any of the following apply:

- where the Banking Group is the major user of that structured entity
- the Banking Group's name appears in the name of that structured entity or on its products
- the Banking Group provides implicit or explicit guarantees of that entity's performance.

Goodwill

Refer to note 24 for details of goodwill held by the Banking Group.

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

Goodwill has been allocated for impairment purposes to the cash generating units at which the goodwill is monitored for internal reporting purposes. Impairment testing of purchased goodwill is performed by comparing the recoverable value of each cash generating unit with the current carrying amount of its net assets, including goodwill. Judgement is required in identifying the cash-generating units to which goodwill and other assets are allocated for the purpose of impairment testing.

The recoverable amount is based on value-in-use calculations. These calculations use cash flow projections based on a number of financial budgets within each segment approved by management covering a three year period. Cash flow projections are based on a range of readily available economic assumptions including GDP and CPI. Cash flows beyond the three year period are extrapolated using a 2% growth rate.

These cash flow projections are discounted using a capital asset pricing model. As at 28 February 2017 when the last valuation was prepared, a discount rate of 11.5% 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 the 10 year Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each segment.

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

NOTES TO THE FINANCIAL STATEMENTS

3. NET INTEREST INCOME

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Interest income		
Financial assets at fair value through profit or loss		
Trading securities	351	453
Financial assets not at fair value through profit or loss		
Cash	41	63
Available-for-sale assets	106	64
Net loans and advances	5,675	5,814
Other	25	29
	5,847	5,970
Total interest income	6,198	6,423
Interest expense		
Financial liabilities at fair value through profit or loss		
Commercial paper	122	226
Financial liabilities not at fair value through profit or loss		
Deposits and other borrowings	2,090	2,310
Unsubordinated debt	704	681
Subordinated debt	220	170
Other	25	34
	3,039	3,195
Total interest expense	3,161	3,421
Net Interest Income	3,037	3,002

4. NON INTEREST INCOME

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Net trading gains		
Net gain on foreign exchange trading	176	203
Net gain / (loss) on trading securities	(121)	115
Net gain / (loss) on trading derivatives	171	(306)
Net trading gains	226	12
Net funds management and insurance income		
Net funds management income	199	187
Net insurance income	130	227
Total funds management and insurance income	329	414
Other operating income		
Lending and credit facility fee income	35	55
Other fee income	702	675
Total fee income	737	730
Direct fee expense	(328)	(308)
Net fee income	409	422
Net gain / (loss) on financial liabilities designated at fair value	4	(5)
Net ineffectiveness on qualifying fair value hedges	(6)	1
Net loss on derivatives not qualifying for hedge accounting	(50)	(29)
Net cash flow hedge loss transferred to income statement	(12)	(7)
Net loss on available for sale securities transferred to income statement	-	(2)
Gain / (loss) on sale of mortgages to NZ Branch	(1)	1
Other income	34	40
Total other operating income	378	421

NOTES TO THE FINANCIAL STATEMENTS

5. OPERATING EXPENSES

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Personnel		
Salaries and related costs	801	811
Superannuation costs	29	30
Share-based payments expense	15	21
Other	11	32
Total personnel expenses	856	894
Premises		
Depreciation of premises and equipment	32	32
Leasing and rental costs	80	79
Other	41	41
Total premises expenses	153	152
Technology		
Depreciation and amortisation	44	111
Licences and outsourced services	125	116
Other	49	58
Total technology expenses	218	285
Other		
Advertising and public relations	41	42
Amortisation and impairment of other intangible assets	4	5
Freight, stationery, postage and telephone	45	48
Goodwill impairment	3	-
Professional fees	43	45
Travel and entertainment expenses	26	28
Charges from Ultimate Parent Bank	46	64
Other	33	36
Total other expenses	241	268
Total operating expenses	1,468	1,599

NOTES TO THE FINANCIAL STATEMENTS

6. INCOME TAX

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	2,445	2,105
Prima facie income tax at 28%	685	589
Imputed and non-assessable dividends	(1)	(1)
Change in tax provisions	(5)	(5)
Non assessable income and non deductible expenditure	2	(11)
Income tax over provided in prior years	(1)	(2)
Total income tax expense	680	570
Effective tax rate (%)	27.8%	27.1%
Amounts recognised in the income statement		
Current tax	640	582
Deferred tax	40	(12)
Total income tax expense recognised in the income statement	680	570
Imputation credits available	4,196	3,566

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 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.

NOTES TO THE FINANCIAL STATEMENTS

7. SEGMENT ANALYSIS

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.

Segment reporting has been updated to reflect minor changes to the Banking Group's structure. Comparative data has been adjusted to be consistent with the current year's segment definitions.

Retail

Retail provides products and services to Retail, Private Banking, and Business Banking customers via the branch network, mortgage specialists, relationship managers, the contact centre and a variety of self service channels (internet banking, phone banking, ATMs, website and mobile phone banking). Retail and Private Banking customers have personal banking requirements and Business Banking customers consist primarily of small enterprises with annual revenues of less than NZ$5 million. Core products and services include current and savings accounts, unsecured lending (credit cards, personal loans and overdrafts), home loans secured by mortgages over property, investment products, superannuation and insurance services.

Commercial

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

Institutional

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

Other

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

Business segment analysis[1]

30/09/2017	Retail NZ$m	Commercial NZ$m	Institutional NZ$m	Other NZ$m	Total NZ$m
External interest income	3,430	2,070	699	(1)	6,198
External interest expense	(1,474)	(302)	(338)	(1,047)	(3,161)
Net intersegment interest	(253)	(868)	(1)	1,122	-
Net interest income	1,703	900	360	74	3,037
Other external operating income	688	21	302	(78)	933
Share of associates' profit	5	-	-	-	5
Operating income	2,396	921	662	(4)	3,975
Operating expenses	1,005	259	184	20	1,468
Profit before credit impairment and income tax	1,391	662	478	(24)	2,507
Credit impairment charge / (release)	35	51	(24)	-	62
Profit before income tax	1,356	611	502	(24)	2,445
Income tax expense	379	172	141	(12)	680
Profit after income tax	977	439	361	(12)	1,765
Other information					
Depreciation and amortisation	12	1	-	67	80
Goodwill	1,109	1,052	1,069	-	3,230
Other intangible assets	111	2	-	65	178
Investment in associates	7	-	-	-	7
Total external assets	74,505	42,186	36,259	1,023	153,973
Total external liabilities	68,415	14,176	28,968	29,633	141,192

NOTES TO THE FINANCIAL STATEMENTS

30/09/2016	Retail NZ$m	Commercial NZ$m	Institutional NZ$m	Other NZ$m	Total NZ$m
External interest income	3,456	2,202	760	5	6,423
External interest expense	(1,598)	(333)	(403)	(1,087)	(3,421)
Net intersegment interest	(198)	(980)	11	1,167	-
Net interest income	1,660	889	368	85	3,002
Other external operating income	680	19	104	44	847
Share of associates' profit	5	-	-	-	5
Operating income	2,345	908	472	129	3,854
Operating expenses	1,048	256	179	116	1,599
Profit before credit impairment and income tax	1,297	652	293	13	2,255
Credit impairment charge	58	72	20	-	150
Profit before income tax	1,239	580	273	13	2,105
Income tax expense	335	163	77	(5)	570
Profit after income tax	904	417	196	18	1,535
Other information					
Depreciation and amortisation	12	1	-	135	148
Goodwill	1,109	1,052	1,072	-	3,233
Other intangible assets	118	3	-	70	191
Investment in associates	7	-	-	-	7
Total external assets	69,230	41,639	47,883	2,067	160,819
Total external liabilities	63,605	13,364	40,730	30,410	148,109

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

Other segment

The table below sets out the profit/(loss) after tax impact of items included in Other.

	30/09/2017 NZ$m	30/09/2016 NZ$m
Operations and support	1	3
Economic hedges	(44)	(29)
Revaluation of insurance policies from changes in interest rates	(25)	42
Other	56	2
Total	(12)	18

NOTES TO THE FINANCIAL STATEMENTS

8. NOTES TO THE CASH FLOW STATEMENT

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Reconciliation of profit after income tax to net cash flows provided by / (used in) operating activities		
Profit after income tax	1,765	1,535
Non-cash items:		
Depreciation and amortisation	80	148
Provision for credit impairment	62	150
Deferred fee revenue and expenses	(13)	(7)
Amortisation of capitalised brokerage / mortgage origination fees	164	152
Amortisation of premiums and discounts	89	70
Fair value gains and losses	(160)	31
Loss on disposal and impairment of premises and equipment and intangibles	5	4
Deferrals or accruals of past or future operating cash receipts or payments:		
Change in net operating assets less liabilities	(1,217)	(4,434)
Change in interest receivable	(14)	29
Change in interest payable	17	(43)
Change in accrued expenses	(2)	(71)
Change in provisions	(20)	15
Change in life insurance policy assets	17	(57)
Change in other receivables and payables	(3)	8
Change in net income tax assets / liabilities	75	(78)
Dividends from associates in excess of share of profits	-	(3)
Items classified as investing activities:		
Proceeds from sale of insurance policies	-	(23)
Net cash flows provided by / (used in) operating activities	845	(2,574)

	30/09/2017 NZ$m	30/09/2016 NZ$m
Reconciliation of cash and cash equivalents to the balance sheet		
Cash	2,338	2,274
Amounts included in settlement balances receivable / (payable):		
Nostro accounts	170	45
Overdrawn nostro accounts	(69)	(4)
Total cash and cash equivalents	2,439	2,315

NOTES TO THE FINANCIAL STATEMENTS

9. CASH

	30/09/2017 NZ$m	30/09/2016 NZ$m
Coins, notes and cash at bank	202	193
Securities purchased under agreements to resell	360	229
Balances with central banks	1,776	1,852
Total cash	2,338	2,274

10. TRADING SECURITIES

	30/09/2017 NZ$m	30/09/2016 NZ$m
Government securities	3,299	5,953
Corporate and financial institution securities	4,364	6,026
Total trading securities	7,663	11,979

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading.

Derivatives held for trading

The held for trading classification includes two categories of derivative instruments: those held as trading positions and those used for the Banking Group's balance sheet risk management.

Trading positions

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

Balance sheet risk management

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

NOTES TO THE FINANCIAL STATEMENTS

	30/09/2017			30/09/2016		
	Notional principal amount NZ$m	Fair values Assets NZ$m	Fair values Liabilities NZ$m	Notional principal amount NZ$m	Fair values Assets NZ$m	Fair values Liabilities NZ$m
Derivatives held for trading						
Foreign exchange derivatives						
Spot and forward contracts	105,717	615	696	63,895	650	785
Swap agreements	164,131	1,773	1,895	141,306	1,718	3,157
Options purchased	1,301	17	-	2,379	50	2
Options sold	1,268	2	27	2,248	7	77
	272,417	2,407	2,618	209,828	2,425	4,021
Interest rate derivatives						
Forward rate agreements	33,945	-	-	41,507	1	5
Swap agreements	1,049,894	7,062	6,335	1,178,795	17,910	17,084
Futures contracts	80,583	5	24	78,988	3	46
Options purchased	1,928	3	-	2,366	6	-
Options sold	1,239	-	1	1,603	1	2
	1,167,589	7,070	6,360	1,303,259	17,921	17,137
Commodity derivatives	320	13	14	460	33	32
Total derivatives held for trading	1,440,326	9,490	8,992	1,513,547	20,379	21,190
Derivatives in hedging relationships						
Fair value hedges						
Interest rate swap agreements	42,038	86	618	34,639	238	386
	42,038	86	618	34,639	238	386
Cash flow hedges						
Interest rate swap agreements	22,955	302	216	18,985	493	380
Total derivatives in hedging relationships	64,993	388	834	53,624	731	766
Total derivative financial instruments	1,505,319	9,878	9,826	1,567,171	21,110	21,956

Derivatives in hedging relationships

Fair value hedges

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

Gain / (loss) on fair value hedges attributable to the hedged risk	30/09/2017 NZ$m	30/09/2016 NZ$m
Gain / (loss) arising from fair value hedges:		
- hedged item	153	(45)
- hedging instrument	(159)	46
Net ineffectiveness on qualifying fair value hedges	(6)	1

Cash flow hedges

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

Analysis of the cash flow hedging reserve	30/09/2017 NZ$m	30/09/2016 NZ$m
Deferred gain / (loss) attributable to hedges of:		
Variable rate loan assets	159	296
Short term re-issuances of fixed rate customer and wholesale deposit liabilities	(116)	(234)
Total cash flow hedging reserve	43	62

All underlying hedged cash flows are expected to be recognised in the income statement in the period in which they occur, which is anticipated to take place over the next ten years (2016: ten years).

NOTES TO THE FINANCIAL STATEMENTS

12. AVAILABLE-FOR-SALE ASSETS

	30/09/2017 NZ$m	30/09/2016 NZ$m
Government securities	4,238	1,195
Corporate and financial institution securities	2,121	1,663
Equity and other securities	1	1
Total available-for-sale assets	6,360	2,859

13. NET LOANS AND ADVANCES

	Note	30/09/2017 NZ$m	30/09/2016 NZ$m
Overdrafts		1,040	1,133
Credit cards outstanding		1,638	1,663
Term loans - housing		72,524	67,298
Term loans - non-housing		44,227	43,651
Finance lease and hire purchase receivables		1,577	1,324
Total gross loans and advances		121,006	115,069
Less: Provision for credit impairment	14	(579)	(622)
Less: Unearned income		(222)	(211)
Add: Capitalised brokerage/mortgage origination fees		334	360
Add: Customer liability for acceptances[1]		-	27
Net loans and advances (including assets classified as held for sale)		120,539	114,623
Less: UDC net loans and advances held for sale	29	(2,912)	-
Net loans and advances		117,627	114,623

1 Customer liability for acceptances has been recognised in Other assets from 30 September 2017.

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ$4,337 million as at 30 September 2017 (2016: NZ$6,020 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

NOTES TO THE FINANCIAL STATEMENTS

14. PROVISION FOR CREDIT IMPAIRMENT

Credit impairment charge / (release)

	30/09/2017				30/09/2016			
	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
New and increased provisions	5	94	133	232	16	110	111	237
Write-backs	(16)	(12)	(67)	(95)	(28)	(18)	(30)	(76)
Recoveries	-	(20)	(11)	(31)	-	(22)	(3)	(25)
Individual credit impairment charge / (release)	(11)	62	55	106	(12)	70	78	136
Collective credit impairment charge / (release)	(3)	(9)	(32)	(44)	1	3	10	14
Credit impairment charge / (release)	(14)	53	23	62	(11)	73	88	150

Movement in provision for credit impairment

	30/09/2017				30/09/2016			
	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Collective provision								
Balance at beginning of the year	78	130	263	471	77	127	253	457
Charge / (release) to income statement	(3)	(9)	(32)	(44)	1	3	10	14
Balance at end of the year	75	121	231	427	78	130	263	471
Individual provision								
Balance at beginning of the year	37	6	108	151	54	9	91	154
New and increased provisions net of write-backs	(11)	82	66	137	(12)	92	81	161
Bad debts written off	(1)	(82)	(50)	(133)	(2)	(95)	(55)	(152)
Discount unwind[1]	-	-	(3)	(3)	(3)	-	(9)	(12)
Balance at end of the year	25	6	121	152	37	6	108	151
Total provision for credit impairment	100	127	352	579	115	136	371	622

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

Impaired assets

	30/09/2017				30/09/2016			
	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Balance at beginning of the year	57	27	342	426	97	32	253	382
Transfers from productive	35	106	430	571	64	129	395	588
Transfers to productive	(17)	(9)	(56)	(82)	(31)	(8)	(7)	(46)
Assets realised or loans repaid	(43)	(22)	(360)	(425)	(71)	(31)	(244)	(346)
Write offs	(1)	(82)	(50)	(133)	(2)	(95)	(55)	(152)
Total impaired assets	31	20	306	357	57	27	342	426
Other assets under administration	8	2	-	10	9	2	-	11
Undrawn facilities with impaired customers	1	-	5	6	-	1	57	58

NOTES TO THE FINANCIAL STATEMENTS

15. DEPOSITS AND OTHER BORROWINGS

	Note	30/09/2017 NZ$m	30/09/2016 NZ$m
Term deposits		45,457	39,665
On demand and short term deposits		41,451	42,323
Deposits not bearing interest		8,882	7,780
UDC secured investments	21	1,039	1,592
Total customer deposits		96,829	91,360
Certificates of deposit		1,916	2,237
Commercial paper		3,721	5,364
Securities sold under repurchase agreements		157	76
Deposits from Immediate Parent Company and NZ Branch	30	73	29
Deposits and other borrowings (including liabilities classified as held for sale)		102,696	99,066
Less: UDC secured investments held for sale	29	(1,039)	-
Deposits and other borrowings		101,657	99,066

Deposits from customers, except UDC secured investments, are unsecured and rank equally with other unsecured liabilities of the Banking Group. In the unlikely event that the Bank was put into liquidation or ceased to trade, secured creditors and those creditors set out in Schedule 7 of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

16. UNSUBORDINATED DEBT

	Note	30/09/2017 NZ$m	30/09/2016 NZ$m
Domestic bonds		3,900	3,975
U.S. medium term notes[1]		9,004	6,883
Euro medium term notes[1]		3,173	2,792
Covered bonds[1]	21, 28	5,325	6,218
Total unsubordinated debt issued		21,402	19,868
Fair value hedge adjustment		(53)	192
Less: held by the Bank		(26)	(46)
Total unsubordinated debt		21,323	20,014

[1] This unsubordinated debt is issued by ANZ New Zealand (Int'l) Limited and is guaranteed by the Bank.

Unsubordinated debt, other than covered bonds, is unsecured and ranks equally with other unsecured liabilities of the Banking Group.

NZX Regulation has granted the Bank a waiver from NZX Debt Market Listing Rule (Rule) 7.12.1 to the extent that this Rule requires the Bank to release to the market details of any acquisition of the Bank's domestic bonds as a result of its market-making activities or trading on behalf of its clients. The Bank will notify the NZX if any such domestic bonds are subsequently cancelled. Rule 7.12.1 does not extend to the Bank's subsidiaries in this context. The Bank will continue to comply with Rule 7.12.1 in respect of any domestic bonds that are issued, redeemed or purchased by the Bank in any other capacity.

Domestic bonds includes three series of bonds quoted on the NZX Debt Market which mature on 22 March 2019, 2 September 2021 and 1 September 2023 respectively (the Bonds). NZX Regulation has granted the Bank waivers from the requirement in Rule 5.2.3 (as modified by NZX Regulation's Ruling on Rule 5.2.3 issued on 29 September 2015) for the Bonds to be held by at least 100 members of the public holding at least 25% of the Bonds issued (Spread). The effect of these waivers is that the Bonds may not be widely held and there may be reduced liquidity in the Bonds. If there is a material reduction in the Spread of the Bonds, the Bank will notify NZX as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

17. SUBORDINATED DEBT

	30/09/2017 NZ$m	30/09/2016 NZ$m
ANZ Capital Notes[1]		
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN)[2]	497	496
NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN)	1,003	1,003
NZD 938m ANZ New Zealand Internal Capital Notes 2 (ANZ NZ ICN2)	938	938
Perpetual subordinated debt		
NZD 835m perpetual subordinated bond[3]	835	835
AUD 10m perpetual subordinated floating rate loan	10	10
Total subordinated debt	3,283	3,282

[1] These instruments qualify as additional tier 1 capital.
[2] These instruments are quoted on the NZX Debt Market.
[3] These instruments are quoted on the NZX Debt Market, and qualify as tier 2 capital, subject to the RBNZ's Basel III transition adjustment. Refer to note 26 for further details.

Subordinated debt is subordinated in right of payment in the event of liquidation or wind up to the claims of depositors and all creditors of the relevant issuer or drawer of the debt.

ANZ Capital Notes

- On 5 March 2015, the Bank issued 10.03 million convertible notes (ANZ NZ ICN) to the NZ Branch at NZ$100 each, raising NZ$1,003 million.
- On 31 March 2015, the Bank issued 500 million convertible notes (ANZ NZ CN) at NZ$1 each, raising NZ$500 million before issue costs.
- On 15 June 2016, the Bank issued 9.38 million convertible notes (ANZ NZ ICN2) to the NZ Branch at NZ$100 each, raising NZ$938 million.

ANZ Capital Notes (the notes) are fully paid convertible non-cumulative perpetual subordinated notes.

As at 30 September 2017, ANZ NZ CN carried a BB+ credit rating from Standard and Poor's.

The notes are classified as debt given there are circumstances beyond the Bank's control where the principal is converted into a variable number of shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) or the Ultimate Parent Bank (ANZ NZ CN).

Interest

Interest on the notes is non-cumulative and payable as follows:

- ANZ NZ ICN: payable semi-annually in arrears in March and September in each year. The interest rate is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 380 basis point margin.
- ANZ NZ CN: payable quarterly in arrears in February, May, August and November in each year. The interest rate is fixed at 7.2% per annum until 25 May 2020, and thereafter will be based on a floating rate equal to the aggregate of the New Zealand 3 month bank bill rate plus a 350 basis point margin.
- ANZ NZ ICN2: payable semi-annually in arrears in June and December in each year. The interest rate is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 629 basis point margin.

Interest payments are subject to the Bank's absolute discretion and certain payment conditions being satisfied (including RBNZ and APRA (ANZ NZ CN only) requirements). If interest is not paid on the notes the Bank may not, except in limited circumstances, pay dividends or undertake a share buy-back or other capital reduction on its ordinary shares until interest is next paid.

Conversion features

On 24 March 2025 (ANZ NZ ICN) or 25 May 2022 (ANZ NZ CN) or an earlier date under certain circumstances, the relevant notes will mandatorily 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) or
- Ultimate Parent Bank based on the average market price of the Ultimate Parent Bank's ordinary shares over a specified period prior to conversion less a 1% discount (ANZ NZ CN).

The mandatory conversion will be deferred for a specified period if the conversion tests are not met.

The Bank will be required to convert some or all of the notes if a common equity capital trigger event, or an RBNZ or APRA (ANZ NZ CN only) non-viability trigger event occurs. The ANZ NZ ICN and ANZ NZ ICN2 will convert into ordinary shares of the Bank and the ANZ NZ CN will convert into ordinary shares of the Ultimate Parent Bank, subject to a maximum conversion number.

NOTES TO THE FINANCIAL STATEMENTS

A common equity capital trigger event occurs if the:

- Banking Group's common equity tier 1 capital ratio is equal to or less than 5.125% or
- Overseas Banking Group's Level 2 common equity tier 1 capital ratio is equal to or less than 5.125% (ANZ NZ CN only).

An RBNZ non-viability trigger event occurs if the RBNZ directs the Bank to convert or write off the notes or a statutory manager is appointed to the Bank and decides the Bank must convert or write off the notes. An APRA non-viability trigger event occurs if APRA notifies the Ultimate Parent Bank that, without the conversion or write-off of certain securities or a public sector injection of capital (or equivalent support), it considers that the Ultimate Parent Bank would become non-viable.

On 25 May 2020 the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's and APRA's prior approval), or to convert into ordinary shares of the Ultimate Parent Bank, all or some of the ANZ NZ CN at its discretion on similar terms as mandatory conversion.

On 24 March 2023 the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's prior approval), or to convert into ordinary shares of the Bank, all or some of the ANZ NZ ICN at its discretion on similar terms as mandatory conversion.

On 15 June 2026 and each 5th anniversary thereafter the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's prior approval), all or some of the ANZ NZ ICN2 at its discretion.

Rights of holders in event of liquidation

The notes rank equally with each other and with the Bank's preference shares and lower than perpetual subordinated debt. Holders of the notes do not have any right to vote in general meetings of the Bank.

Perpetual subordinated debt

Perpetual subordinated debt instruments are classified as debt reflecting an assessment of the key terms and conditions of the instruments, and an assessment of the ability, and likelihood of interest payments being deferred. Certain of these instruments have interrelationships that have been considered in this assessment.

NZD 835,000,000 bond

This bond was issued by the Bank on 18 April 2008.

The Bank may elect to redeem the bond on 18 April 2018 (the Call Date) or any interest payment date subsequent to 18 April 2018. Interest is payable semi-annually in arrears on 18 April and 18 October each year, up to and including the Call Date and then quarterly thereafter. Should the bond not be called at the Call Date, the Coupon Rate from the Call Date onwards will be based on a floating rate equal to the aggregate of the 3 month bank bill rate plus a 300 basis point margin.

As at 30 September 2017, this bond carried a BBB rating by Standard and Poor's and a Baa1 rating by Moody's.

The coupon interest on the bond is 5.28% per annum until 18 April 2018.

AUD 10,000,000 loan

This loan was drawn down by the Bank on 27 March 2013 and has no fixed maturity. Interest is payable semi-annually in arrears on 15 March and 15 September each year. The Bank may repay the loan on any interest payment date after the NZD 835,000,000 bond has been repaid in full.

Coupon interest is based on a floating rate equal to the aggregate of the Australian 6 month bank bill rate plus a 240 basis point margin, increasing to the Australian 6 month bank bill rate plus a 440 basis point margin from 15 September 2018.

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

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

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

Credit risk

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

Credit risk incorporates the risks associated with the Banking Group 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.

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

Credit risk management

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Country risk management

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

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

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

Portfolio stress testing

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

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

Portfolio analysis and reporting

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

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

Collateral management

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Concentrations of credit risk

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

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

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.

The presentation of these tables has changed from previous periods to align this disclosure with the classifications in the data series *S34 – Banks: Assets – Loans by industry* published by the RBNZ. This series uses ANZSIC 2006 industry classifications rather than ANZSIC 1996 that were previously used. Updated corresponding amounts as at 30 September 2016 have been provided for comparative purposes. The most significant changes to the 30 September 2016 amounts from the previous presentation are:

1 Industry classification is now shown separately for New Zealand residents and non-New Zealand residents
2 The reduction in exposures to households, previously described as personal lending, is due to the reclassification of loans secured by rental properties to the relevant customer's industry, of which the majority are now included in rental, hiring and real estate services.

30/09/2017	Cash, settlements receivable and collateral paid NZ$m	Trading securities and available-for-sale assets NZ$m	Derivative financial instruments NZ$m	Net loans and advances[3] NZ$m	Other financial assets NZ$m	Credit related commitments[4] NZ$m	Total NZ$m
New Zealand residents							
Agriculture	-	-	25	17,686	58	1,436	19,205
Forestry and fishing, agriculture services	-	-	1	1,277	4	240	1,522
Manufacturing	-	14	146	2,729	9	1,798	4,696
Electricity, gas, water and waste services	-	15	437	1,602	5	1,522	3,581
Construction	-	-	13	1,635	5	1,119	2,772
Wholesale trade	-	-	49	1,630	5	1,357	3,041
Retail trade and accommodation	-	1	17	3,058	10	1,133	4,219
Transport, postal and warehousing	-	9	55	1,440	5	894	2,403
Finance and insurance services	2,296	1,709	925	903	338	1,259	7,430
Public administration and safety[1]	-	7,477	621	412	1	794	9,305
Rental, hiring & real estate services	-	-	114	30,697	104	3,699	34,614
Professional, scientific, technical, administrative and support services	-	1	5	1,267	4	619	1,896
Households	-	-	-	51,554	180	11,878	63,612
All other New Zealand residents[2]	-	5	240	2,625	8	1,474	4,352
	2,296	9,231	2,648	118,515	736	29,222	162,648
Overseas							
Finance and insurance services	1,795	4,325	7,006	123	-	155	13,404
Households	-	-	-	1,454	5	-	1,459
All other non-NZ residents	-	467	224	914	3	-	1,608
	1,795	4,792	7,230	2,491	8	155	16,471
Less: Provision for credit impairment	-	-	-	(495)	-	(84)	(579)
Less: Unearned income	-	-	-	(222)	-	-	(222)
Add: Capitalised brokerage / mortgage origination fees	-	-	-	334	-	-	334
Total financial assets	4,091	14,023	9,878	120,623	744	29,293	178,652

NOTES TO THE FINANCIAL STATEMENTS

30/09/2016	Cash, settlements receivable and collateral paid NZ$m	Trading securities and available-for-sale assets NZ$m	Derivative financial instruments NZ$m	Net loans and advances[3] NZ$m	Other financial assets NZ$m	Credit related commitments[4] NZ$m	Total NZ$m
New Zealand residents							
Agriculture	-	-	23	17,779	58	1,366	19,226
Forestry and fishing, agriculture services	-	-	21	1,231	4	242	1,498
Manufacturing	-	12	185	3,555	12	2,012	5,776
Electricity, gas, water and waste services	-	21	642	1,298	4	1,255	3,220
Construction	-	-	17	1,579	5	1,030	2,631
Wholesale trade	-	-	23	1,645	5	1,596	3,269
Retail trade and accommodation	-	-	63	3,059	10	1,110	4,242
Transport, postal and warehousing	-	5	91	1,380	5	924	2,405
Finance and insurance services	2,931	2,569	1,186	807	281	1,202	8,976
Public administration and safety[1]	-	7,028	1,049	352	5	750	9,184
Rental, hiring & real estate services	-	-	75	28,230	96	3,562	31,963
Professional, scientific, technical, administrative and support services	-	-	9	1,154	4	734	1,901
Households	-	-	-	47,923	172	11,486	59,581
All other New Zealand residents[2]	-	46	244	2,529	8	2,305	5,132
	2,931	9,681	3,628	112,521	669	29,574	159,004
Overseas							
Finance and insurance services	1,856	4,703	17,470	95	-	183	24,307
Households	-	-	-	1,353	5	-	1,358
All other non-NZ residents	-	454	12	1,127	4	-	1,597
	1,856	5,157	17,482	2,575	9	183	27,262
Less: Provision for credit impairment	-	-	-	(518)	-	(104)	(622)
Less: Unearned income	-	-	-	(211)	-	-	(211)
Add: Capitalised brokerage / mortgage origination fees	-	-	-	360	-	-	360
Total financial assets	4,787	14,838	21,110	114,727	678	29,653	185,793

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. Credit related commitments comprise undrawn facilities, customer contingent liabilities and letters of offer.

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Maximum exposure to credit risk

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

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

The assignable value of credit mitigants, such as guarantees and security interests over the assets of a customer's business, is less certain and their financial effect has not been quantified for disclosure purposes. Credit exposures shown as not fully secured may benefit from such credit mitigants.

	30/09/2017			30/09/2016		
	Maximum exposure to credit risk	Financial effect of collateral	Unsecured portion of credit exposure	Maximum exposure to credit risk	Financial effect of collateral	Unsecured portion of credit exposure
	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m
On and off-balance sheet positions						
Cash	2,140	360	1,780	2,081	229	1,852
Settlement balances receivable	536	266	270	396	265	131
Collateral paid	1,415	-	1,415	2,310	-	2,310
Trading securities	7,663	-	7,663	11,979	-	11,979
Derivative financial instruments	9,878	613	9,265	21,110	529	20,581
Available-for-sale assets	6,360	-	6,360	2,859	-	2,859
Net loans and advances	120,623	110,914	9,709	114,727	104,399	10,328
Other financial assets	744	378	366	678	361	317
Credit related commitments	29,293	14,526	14,767	29,653	15,193	14,460
Total exposure to credit risk	178,652	127,057	51,595	185,793	120,976	64,817

Credit quality

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

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

Impairment and provisioning of financial assets

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

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

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

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

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

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Distribution of gross loans and advances assets by credit quality

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

	30/09/2017				30/09/2016			
	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Strong risk rating	59,574	1,330	20,922	81,826	57,203	1,263	20,248	78,714
Satisfactory risk rating	9,135	3,153	21,995	34,283	6,335	2,997	22,309	31,641
Substandard but not past due or impaired	480	435	1,643	2,558	325	539	1,928	2,792
Total neither past due nor impaired	69,189	4,918	44,560	118,667	63,863	4,799	44,485	113,147
Past due but not impaired:								
1 to 5 days	375	113	543	1,031	337	125	350	812
6 to 29 days	181	74	99	354	131	73	42	246
1 to 29 days	556	187	642	1,385	468	198	392	1,058
30 to 59 days	85	34	171	290	109	32	62	203
60 to 89 days	95	18	12	125	82	17	6	105
90 days and over	132	31	19	182	81	26	23	130
Total past due but not impaired	868	270	844	1,982	740	273	483	1,496
Total impaired assets	31	20	306	357	57	27	342	426
Gross loans and advances	70,088	5,208	45,710	121,006	64,660	5,099	45,310	115,069

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

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

Internal ratings

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

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

Substandard but not past due or impaired - Corporate customers demonstrating some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. Retail customers with higher expected loss. This rating band broadly corresponds to ratings "B2" to "Caa" and "B" to "CCC" of Moody's Investors Service and Standard & Poor's respectively.

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

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

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

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

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

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Market risk

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

The Banking Group conducts trading operations in interest rates, foreign exchange, commodities and debt securities.

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

Market risk management and control responsibilities

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

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

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

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

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

a. Traded market risk

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

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

b. Non-traded market risk (or balance sheet risk)

This comprises the management of non-traded interest rate risk, liquidity, and the risk to capital and earnings as a result of movements in market rates.

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

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

VaR measure

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

The confidence level is such that there is a 99% probability that the loss will not exceed the VaR estimate on any given day. Conversely there is 1% probability of the decrease in market value exceeding the VaR estimate on any given day.

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

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

Traded market risks

	30/09/2017				30/09/2016			
	Value at risk at 99% confidence				Value at risk at 99% confidence			
	Period end	High for year	Low for year	Average for year	Period end	High for year	Low for year	Average for year
	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m
Foreign exchange risk	0.1	1.2	0.1	0.4	0.2	0.9	0.1	0.4
Interest rate risk	3.0	5.8	1.3	2.5	2.1	4.9	1.3	2.6
Credit spread risk	0.6	0.8	0.4	0.6	0.5	0.7	0.3	0.5
Diversification benefit	(0.9)	n/a	n/a	(0.9)	(0.7)	n/a	n/a	(1.0)
Total VaR	2.8	5.3	1.4	2.6	2.1	4.4	1.3	2.5

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

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

Non-traded market risk (or balance sheet risk)

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

Interest rate risk

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

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

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

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

a. Non-traded interest rate risk VaR

	Period end	High for year	Low for year	Average for year
	NZ$m	NZ$m	NZ$m	NZ$m
30/09/2017				
Value at risk at 99% confidence	8.3	10.2	7.3	8.2
30/09/2016				
Value at risk at 99% confidence	9.7	10.3	7.7	8.9

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

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

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

	30/09/2017	30/09/2016
Impact of 1% rate shock		
Period end	0.6%	0.4%
Maximum exposure	0.9%	1.6%
Minimum exposure	-0.3%	-0.2%
Average exposure (in absolute terms)	0.4%	0.7%

The extent of mismatching between the repricing characteristics and timing of interest bearing assets and liabilities at any point has implications for future net interest income.

Interest rate sensitivity gap

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

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

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

The repricing gaps are based upon contractual repricing.

30/09/2017	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	2,338	2,140	-	-	-	-	198
Settlement balances receivable	536	129	-	-	-	-	407
Collateral paid	1,415	1,415	-	-	-	-	-
Trading securities	7,663	496	268	241	2,025	4,633	-
Derivative financial instruments	9,878	-	-	-	-	-	9,878
Available-for-sale assets	6,360	713	250	603	1,465	3,328	1
Net loans and advances[1]	120,539	60,553	8,328	18,979	21,575	11,531	(427)
Other financial assets[1]	744	77	14	29	3	-	621
Total financial assets	149,473	65,523	8,860	19,852	25,068	19,492	10,678
Liabilities							
Settlement balances payable	1,840	630	-	-	-	-	1,210
Collateral received	613	613	-	-	-	-	-
Deposits and other borrowings[1]	102,696	68,718	12,925	8,051	2,855	1,265	8,882
Derivative financial instruments	9,826	-	-	-	-	-	9,826
Unsubordinated debt	21,323	3,511	1,567	125	3,420	12,700	-
Subordinated debt	3,283	938	1,013	835	-	497	-
Other financial liabilities[1]	759	151	-	-	-	-	608
Total financial liabilities	140,340	74,561	15,505	9,011	6,275	14,462	20,526
Hedging instruments	-	1,974	(1,395)	4,425	(4,008)	(996)	-
Interest sensitivity gap	9,133	(7,064)	(8,040)	15,266	14,785	4,034	(9,848)

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30/09/2016	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	2,274	2,081	-	-	-	-	193
Settlement balances receivable	396	48	-	-	-	-	348
Collateral paid	2,310	2,310	-	-	-	-	-
Trading securities	11,979	1,092	243	308	2,090	8,246	-
Derivative financial instruments	21,110	-	-	-	-	-	21,110
Available-for-sale assets	2,859	1,956	149	50	160	543	1
Net loans and advances	114,623	61,267	8,256	18,483	18,677	8,411	(471)
Other financial assets	678	65	25	17	12	-	559
Total financial assets	156,229	68,819	8,673	18,858	20,939	17,200	21,740
Liabilities							
Settlement balances payable	1,771	666	-	-	-	-	1,105
Collateral received	529	529	-	-	-	-	-
Deposits and other borrowings	99,066	65,416	11,988	10,120	2,460	1,302	7,780
Derivative financial instruments	21,956	-	-	-	-	-	21,956
Unsubordinated debt	20,014	4,342	-	1,087	2,843	11,742	-
Subordinated debt	3,282	938	1,013	-	835	496	-
Payables and other liabilities	639	51	-	-	9	124	455
Total financial liabilities	147,257	71,942	13,001	11,207	6,147	13,664	31,296
Hedging instruments	-	17,376	(13,314)	5,850	(11,914)	2,002	-
Interest sensitivity gap	8,972	14,253	(17,642)	13,501	2,878	5,538	(9,556)

[1] Includes UDC items classified as held for sale

Foreign currency related risks

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

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

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

	30/09/2017 NZ$m	30/09/2016 NZ$m
Net open position		
Australian dollar	24	26
Euro	-	6
Japanese yen	3	(3)
US dollar	13	(5)
Other	2	1
Total net open position	42	25

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Liquidity risk

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

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

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

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

Management of liquidity and funding risks are overseen by ALCO.

Supervision and regulation

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

Scenario modelling

A key component of the Banking Group's liquidity management framework is scenario modelling.

Potential severe name-specific 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. Under the liquidity policy the Banking Group must have sufficient high quality liquid assets to meet its liquidity needs for the following 30 calendar days under these scenarios.

As of 30 September 2017 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 while targeting diversification by markets, investors, currencies, maturities and funding structures. Short-term wholesale funding requirements, with a contractual maturity of less than one year, are managed through the Treasury and Markets operations. Long-term wholesale funding is managed and executed through Treasury operations.

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

Funding capacity and debt issuance planning

The Banking Group adopts a conservative approach to determine its funding capacity. 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.

NOTES TO THE FINANCIAL STATEMENTS

Funding composition

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

Analysis of funding liabilities by industry is based on ANZSIC codes. The significant categories shown are the level one New Zealand Standard Industry Output Categories (NZSIOC). The presentation of these tables has changed from previous periods to align this disclosure with the classifications in the data series *S41 – Banks: Liabilities – Deposits by industry* published by the RBNZ.

	Note	30/09/2017 NZ$m	30/09/2016 NZ$m
Funding composition			
Customer deposits	15	96,829	91,360
Wholesale funding			
Unsubordinated debt		21,323	20,014
Subordinated debt		3,283	3,282
Certificates of deposit		1,916	2,237
Commercial paper		3,721	5,364
Other borrowings		230	105
Total wholesale funding		30,473	31,002
Total funding		127,302	122,362
Customer deposits by industry - New Zealand residents			
Agriculture, forestry and fishing		3,487	3,334
Manufacturing		2,024	1,978
Construction		1,851	1,598
Wholesale trade		1,433	1,284
Retail trade and accommodation		1,516	1,328
Financial and insurance services		8,996	8,918
Rental, hiring and real estate services		2,596	2,321
Professional, scientific, technical, administrative and support services		5,034	4,958
Public administration and safety		1,261	1,258
Arts, recreation and other services		1,928	1,833
Households		53,222	49,492
All other New Zealand residents[1]		3,483	3,040
		86,831	81,342
Customer deposits by industry - overseas			
Households		9,461	8,948
All other non-NZ residents		537	1,070
		9,998	10,018
Total customer deposits		96,829	91,360
Wholesale funding (financial and insurance services industry)			
New Zealand		9,134	9,080
Overseas		21,339	21,922
Total wholesale funding		30,473	31,002
Total funding		127,302	122,362
Concentrations of funding by geography			
New Zealand		95,965	90,422
Australia		796	1,017
United States		13,471	12,215
Europe		9,784	11,448
Other countries		7,286	7,260
Total funding		127,302	122,362

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.

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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

	30/09/2017 NZ$m	30/09/2016 NZ$m
Cash and balances with central banks	2,102	2,068
Certificates of deposit	59	1,124
Government, local body stock and bonds	6,609	6,117
Government treasury bills	775	811
Reserve Bank bills	-	100
Other bonds	6,390	6,483
Total liquidity portfolio	15,935	16,703

Assets held for managing liquidity risk include short term cash held with the RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated NZ domestic corporates. These assets would be accepted as collateral by the RBNZ in repurchase transactions. At 30 September 2017 the Banking Group would be eligible to enter into repurchase transactions with a value of NZ$13,832 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$7,297 million at 30 September 2017.

Liquidity crisis contingency planning

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

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

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Contractual maturity analysis of financial assets and liabilities

The following tables present the Banking Group's financial assets and liabilities within relevant contractual maturity groupings, based on the earliest date on which the Bank or the Banking Group may be required to realise an asset or settle a liability. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows, except for derivatives held for trading where the full mark-to-market amount has been included in the less than three months category. As a result, the amounts in the tables below may differ to the amounts reported on the balance sheet.

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

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

30/09/2017	Total NZ$m	At call NZ$m	Up to 3 months NZ$m	Over 3 to 12 months NZ$m	Over 1 to 5 years NZ$m	Over 5 years NZ$m	No maturity specified NZ$m
Financial assets							
Cash	2,338	1,974	364	-	-	-	-
Settlement balances receivable	536	185	351	-	-	-	-
Collateral paid	1,415	-	1,415	-	-	-	-
Trading securities	8,226	-	366	804	6,323	733	-
Derivative financial assets (trading)	8,682	-	8,682	-	-	-	-
Available-for-sale assets	6,746	-	545	1,013	4,452	735	1
Net loans and advances[1]	159,358	146	16,149	17,405	54,848	70,810	-
Other financial assets[1]	332	-	276	43	13	-	-
Total financial assets	187,633	2,305	28,148	19,265	65,636	72,278	1
Financial liabilities							
Settlement balances payable	1,850	1,165	685	-	-	-	-
Collateral received	613	-	613	-	-	-	-
Deposits and other borrowings[1]	111,925	58,287	24,814	24,320	4,504	-	-
Derivative financial liabilities (trading)	8,057	-	8,057	-	-	-	-
Unsubordinated debt [2]	22,783	-	1,593	2,072	15,827	3,291	-
Subordinated debt[2]	3,691	-	11	878	669	2,133	-
Other financial liabilities[1]	361	-	155	6	56	144	-
Total financial liabilities	149,280	59,452	35,928	27,276	21,056	5,568	-
Derivative financial instruments used for balance sheet management							
- gross inflows	15,377	-	2,082	2,300	8,128	2,867	-
- gross outflows	(15,737)	-	(2,235)	(2,433)	(8,328)	(2,741)	-
Net financial assets / (liabilities) after balance sheet management	37,993	(57,147)	(7,933)	(8,144)	44,380	66,836	1

Contractual maturity of off-balance sheet commitments and contingent liabilities

	Total NZ$m	Less than 1 year NZ$m	Beyond 1 year NZ$m
Non-credit related commitments	488	88	400
Credit related commitments	26,769	26,769	-
Contingent liabilities	2,608	2,608	-
Total	29,865	29,465	400

1 Includes UDC items classified as held for sale.

2 Any callable wholesale debt instruments have been included at their next call date. Refer to note 17 for subordinated debt call dates.

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30/09/2016	Total NZ$m	At call NZ$m	Up to 3 months NZ$m	Over 3 to 12 months NZ$m	Over 1 to 5 years NZ$m	Over 5 years NZ$m	No maturity specified NZ$m
Financial assets							
Cash	2,274	2,045	229	-	-	-	-
Settlement balances receivable	396	58	338	-	-	-	-
Collateral paid	2,310	-	2,310	-	-	-	-
Trading securities	12,804	-	171	1,136	10,859	638	-
Derivative financial assets (trading)	19,513	-	19,513	-	-	-	-
Available-for-sale assets	2,923	-	1,670	283	969	-	1
Net loans and advances	147,972	246	15,350	17,562	50,168	64,646	-
Other financial assets	281	-	228	41	12	-	-
Total financial assets	188,473	2,349	39,809	19,022	62,008	65,284	1
Financial liabilities							
Settlement balances payable	1,740	1,111	629	-	-	-	-
Collateral received	529	-	529	-	-	-	-
Deposits and other borrowings	100,429	50,413	20,790	25,095	4,131	-	-
Derivative financial liabilities (trading)	19,374	-	19,374	-	-	-	-
Unsubordinated debt[1]	20,983	-	2,363	1,882	13,466	3,272	-
Subordinated debt[1]	3,354	-	11	33	1,369	1,941	-
Other financial liabilities	264	-	33	7	93	131	-
Total financial liabilities	146,673	51,524	43,729	27,017	19,059	5,344	-
Derivative financial instruments used for balance sheet management							
- gross inflows	16,047	-	3,006	1,811	7,642	3,588	-
- gross outflows	(16,844)	-	(3,492)	(1,823)	(7,874)	(3,655)	-
Net financial assets / (liabilities) after balance sheet management	41,003	(49,175)	(4,406)	(8,007)	42,717	59,873	1

Contractual maturity of off-balance sheet commitments and contingent liabilities

	Total NZ$m	Less than 1 year NZ$m	Beyond 1 year NZ$m
Non-credit related commitments	460	92	368
Credit related commitments	27,296	27,296	-
Contingent liabilities	2,461	2,461	-
Total	30,217	29,849	368

1 Any callable wholesale debt instruments have been included at their next call date.

NOTES TO THE FINANCIAL STATEMENTS

19. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

	At amortised cost	At fair value through profit or loss		Hedging	Available-for-sale assets	Total carrying amount	Fair value
		Designated on initial recognition	Held for trading				
30/09/2017	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m
Cash	2,338	-	-	-	-	2,338	2,338
Settlement balances receivable	536	-	-	-	-	536	536
Collateral paid	1,415	-	-	-	-	1,415	1,415
Trading securities	-	-	7,663	-	-	7,663	7,663
Derivative financial instruments[1]	-	-	9,490	388	-	9,878	9,878
Available-for-sale assets	-	-	-	-	6,360	6,360	6,360
Net loans and advances[2, 3]	120,539	-	-	-	-	120,539	120,588
Other financial assets	621	123	-	-	-	744	744
Total financial assets	125,449	123	17,153	388	6,360	149,473	149,522
Settlement balances payable	1,840	-	-	-	-	1,840	1,840
Collateral received	613	-	-	-	-	613	613
Deposits and other borrowings[3]	98,975	3,721	-	-	-	102,696	102,751
Derivative financial instruments[1]	-	-	8,992	834	-	9,826	9,826
Unsubordinated debt[2]	21,323	-	-	-	-	21,323	21,517
Subordinated debt	3,283	-	-	-	-	3,283	3,501
Other financial liabilities	608	-	151	-	-	759	759
Total financial liabilities	126,642	3,721	9,143	834	-	140,340	140,807
30/09/2016							
Cash	2,274	-	-	-	-	2,274	2,274
Settlement balances receivable	396	-	-	-	-	396	396
Collateral paid	2,310	-	-	-	-	2,310	2,310
Trading securities	-	-	11,979	-	-	11,979	11,979
Derivative financial instruments[1]	-	-	20,379	731	-	21,110	21,110
Available-for-sale assets	-	-	-	-	2,859	2,859	2,859
Net loans and advances[2]	114,623	-	-	-	-	114,623	114,891
Other financial assets	559	119	-	-	-	678	678
Total financial assets	120,162	119	32,358	731	2,859	156,229	156,497
Settlement balances payable	1,771	-	-	-	-	1,771	1,771
Collateral received	529	-	-	-	-	529	529
Deposits and other borrowings	93,702	5,364	-	-	-	99,066	99,169
Derivative financial instruments[1]	-	-	21,190	766	-	21,956	21,956
Unsubordinated debt[2]	20,014	-	-	-	-	20,014	20,148
Subordinated debt	3,282	-	-	-	-	3,282	3,351
Other financial liabilities	482	-	157	-	-	639	639
Total financial liabilities	119,780	5,364	21,347	766	-	147,257	147,563

1 Derivative financial instruments classified as held for trading include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to certain financial assets within loans and advances and certain financial liabilities within unsubordinated debt. The resulting fair value adjustment means that the carrying value differs from the amortised cost.
3 Includes UDC items classified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

Measurement of fair value

Valuation methodologies

The Banking Group has an established control framework that ensures fair value is either determined or validated by a function independent of the party that undertakes the transaction. The control framework ensures that all models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data.

Where quoted market prices are used, prices are independently verified from other sources. For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of valuation models, any inputs to those models, any adjustments required outside of the valuation model and, where possible, independent validation of model outputs. In this way, continued appropriateness of the valuations is ensured.

In instances where the Banking Group holds offsetting risk positions, the Banking Group uses the portfolio exemption in NZ IFRS 13 *Fair Value Measurement* to measure the fair value of such groups of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (that is, an asset) for a particular risk exposure or to transfer a net short position (that is, a liability) for a particular risk exposure.

The Banking Group categorises its fair value measurements on the basis of inputs used in measuring fair value using the fair value hierarchy below:

- Level 1 – Financial instruments that have been valued by reference to unadjusted quoted prices in active markets for identical financial instruments. This category includes financial instruments valued using quoted yields where available for specific debt securities.
- Level 2 – Financial instruments that have been valued through valuation techniques incorporating inputs other than quoted prices within Level 1 that are observable for a similar financial asset or liability, either directly or indirectly.
- Level 3 – Financial instruments that have been valued using valuation techniques which incorporate significant inputs that are not based on observable market data (unobservable inputs).

Valuation techniques and inputs used

In the event that there is no quoted market price for the instrument, fair value is based on valuation techniques. The valuation models incorporate the impact of bid/ask spreads, counterparty credit spreads, funding costs and other factors that would influence the fair value determined by market participants.

The majority of valuation techniques employ only observable market data. However, for certain financial instruments the valuation technique may employ some data (valuation inputs or components) which is not readily observable in the current market. In these cases valuation inputs (or components of the overall value) are derived and extrapolated from other relevant market data and tested against historic transactions and observed market trends. To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependent on the significance of the unobservable input to the overall valuation.

The following valuation techniques have been applied to determine the fair values of financial instruments where there is no quoted price (level1) for the instrument:

- For instruments classified as trading securities and securities short sold, derivative financial assets and liabilities, available-for-sale assets, and investments backing insurance contract liabilities, fair value measurements are derived by using modelled valuations techniques (including discounted cash flow models) that incorporate market prices / yields for securities with similar credit risk, maturity and yield characteristics; and/or current market yields for similar instruments.
- For net loans and advances, deposits and other borrowings and unsubordinated debt, discounted cash flow techniques are used 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.

There have been no substantial changes in the valuation techniques applied to different classes of financial instruments during the year.

NOTES TO THE FINANCIAL STATEMENTS

Valuation hierarchy for financial assets and financial liabilities measured at fair value in the balance sheet

	30/09/2017				30/09/2016			
	Level 1 NZ$m	Level 2 NZ$m	Level 3 NZ$m	Total NZ$m	Level 1 NZ$m	Level 2 NZ$m	Level 3 NZ$m	Total NZ$m
Financial assets								
Trading securities	7,276	387	-	7,663	11,967	12	-	11,979
Derivative financial instruments	5	9,870	3	9,878	3	21,100	7	21,110
Available-for-sale assets	5,336	1,023	1	6,360	1,671	1,187	1	2,859
Investments backing insurance contract liabilities	-	123	-	123	5	114	-	119
Total	12,617	11,403	4	24,024	13,646	22,413	8	36,067
Financial liabilities								
Deposits and other borrowings	-	3,721	-	3,721	-	5,364	-	5,364
Derivative financial instruments	24	9,801	1	9,826	46	21,908	2	21,956
Other financial liabilities	151	-	-	151	157	-	-	157
Total	175	13,522	1	13,698	203	27,272	2	27,477

Valuation hierarchy for financial assets and financial liabilities not measured at fair value[1]

	30/09/2017				30/09/2016			
	Level 1 NZ$m	Level 2 NZ$m	Level 3 NZ$m	Total NZ$m	Level 1 NZ$m	Level 2 NZ$m	Level 3 NZ$m	Total NZ$m
Financial assets								
Net loans and advances	-	117,365	3,223	120,588	-	111,513	3,378	114,891
Financial liabilities								
Deposits and other borrowings	-	99,030	-	99,030	-	93,805	-	93,805
Unsubordinated debt	1,487	20,030	-	21,517	1,629	18,519	-	20,148
Subordinated debt	1,368	2,133	-	3,501	1,361	1,990	-	3,351
Total	2,855	121,193	-	124,048	2,990	114,314	-	117,304

1 Fair values, where the carrying amount is not considered a close approximation of fair value.

20. 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.

	30/09/2017			30/09/2016		
	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						
Investments backing insurance contract liabilities	120	3	123	107	12	119
Available-for-sale assets	1,400	4,960	6,360	1,915	944	2,859
Net loans and advances[1]	24,945	95,594	120,539	24,976	89,647	114,623
Other assets[1]	665	38	703	598	103	701
Life insurance contract assets	45	591	636	42	588	630
Liabilities						
Deposits and other borrowings[1]	98,193	4,503	102,696	95,301	3,765	99,066
Payables and other liabilities[1]	1,006	178	1,184	884	235	1,119
Employee entitlements[1]	34	86	120	29	97	126
Other provisions	66	-	66	79	1	80
Unsubordinated debt	3,169	18,154	21,323	4,009	16,005	20,014
Subordinated debt[2]	845	2,438	3,283	-	3,282	3,282

1 Includes UDC items classified as held for sale.
2 Any callable wholesale debt instruments have been included at their next call date.

NOTES TO THE FINANCIAL STATEMENTS

21. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

Assets charged as security for liabilities[1]

The carrying amounts of assets pledged as security are as follows:

	Carrying Amount		Related Liability	
	30/09/2017 NZ$m	30/09/2016 NZ$m	30/09/2017 NZ$m	30/09/2016 NZ$m
Securities sold under agreements to repurchase	157	77	157	76
Residential mortgages pledged as security for covered bonds	10,595	10,265	5,325	6,218
Assets pledged as collateral for UDC secured investments	2,985	2,665	1,039	1,592

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.

Collateral accepted as security for assets[1]

The Banking Group has received collateral in relation to reverse repurchase agreements. These transactions are governed by standard industry agreements.

The fair value of collateral received and sold or repledged is as follows:

	30/09/2017 NZ$m	30/09/2016 NZ$m
Collateral received on standard reverse repurchase agreements		
Fair value of assets which can be sold	361	231
Fair value of assets sold or repledged	218	141

[1] Excludes the amounts disclosed as collateral paid and received in the balance sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of the collateral agreements are included in the standard CSA that forms part of the ISDA.

NOTES TO THE FINANCIAL STATEMENTS

22. OFFSETTING

The following information relates to financial assets and liabilities which have not been set off in the balance sheet but for which the Banking Group has enforceable master netting agreements in place with counterparties. No financial assets and liabilities have been set off in the balance sheet.

	Gross amounts presented in the balance sheet	Related amounts not offset[1]		
		Financial instruments	Cash collateral	Net amounts
30/09/2017	**NZ$m**	**NZ$m**	**NZ$m**	**NZ$m**
Financial assets				
Collateral paid	409	-	(348)	61
Trading securities[2]	157	(157)	-	-
Derivative financial instruments	7,945	(7,478)	(245)	222
Financial liabilities				
Collateral received	318	-	(245)	73
Securities sold under agreements to repurchase[3]	157	(157)	-	-
Derivative financial instruments	8,440	(7,478)	(348)	614
30/09/2016				
Financial assets				
Collateral paid	1,405	-	(1,332)	73
Trading securities[2]	77	(76)	-	1
Derivative financial instruments	7,618	(7,280)	(323)	15
Financial liabilities				
Collateral received	358	-	(323)	35
Securities sold under agreements to repurchase[3]	76	(76)	-	-
Derivative financial instruments	8,768	(7,280)	(1,332)	156

1 The Banking Group enters into derivatives and repurchase and reverse repurchase agreements with various counterparties which are governed by industry standard master netting agreements. The Banking Group holds and provides cash and securities collateral in respective of derivative transactions covered by these agreements. The right to set off balances under these master netting agreements or to set off cash and securities collateral only arises in the event of non-payment or default and, as a result, these arrangements do not qualify for offsetting under NZ IAS 32 *Financial Instruments: Presentation*.

2 This is the amount of trading securities encumbered through repurchase agreements, see financial assets pledged as collateral table in note 21.

3 Included in deposits and other borrowings, see note 15.

NOTES TO THE FINANCIAL STATEMENTS

23. CREDIT RELATED COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

	30/09/2017 NZ$m	30/09/2016 NZ$m
Contract amount of:		
Credit related commitments - facilities provided		
Undrawn facilities	26,769	27,296
Guarantees and contingent liabilities		
Guarantees and letters of credit	1,010	850
Performance related contingencies	1,598	1,611
Total guarantees and contingent liabilities	2,608	2,461
Total Credit Related Commitments, Guarantees and Contingent Liabilities	29,377	29,757

These guarantees and contingent liabilities 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 issue of letters of credit guaranteeing payment in favour of an exporter 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 should the customer fail to fulfil the non-monetary terms of the contract.

To reflect the risk associated with these transactions, they are subjected to the same credit origination, portfolio management and collateral requirements as customers that apply for loans. The contract amount represents the maximum potential amount that could be lost 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.

Other contingent liabilities

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

24. GOODWILL AND OTHER INTANGIBLE ASSETS

	Note	30/09/2017 NZ$m	30/09/2016 NZ$m
Goodwill		3,230	3,233
Software		67	76
Other intangibles		111	115
Goodwill and other intangible assets (including assets classified as held for sale)		3,408	3,424
Less: goodwill allocated to UDC and held for sale	29	(133)	-
Goodwill and other intangible assets		3,275	3,424

NOTES TO THE FINANCIAL STATEMENTS

25. SHARE CAPITAL

	Number of issued shares		NZ$ millions	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
Ordinary shares	3,345,755,498	3,345,755,498	8,588	8,588
Redeemable preference shares	300,000,000	300,000,000	300	300
Total share capital	3,645,755,498	3,645,755,498	8,888	8,888

Ordinary shares

650,712 of the ordinary shares are uncalled (2016: 650,712 shares uncalled).

During the year ended 30 September 2017 the Bank paid ordinary dividends of NZ$1,684 million (2016: NZ$1,350 million) to the Immediate Parent Company (equivalent to NZ$0.50 per share) (2016: equivalent to NZ$0.40 per share).

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

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. 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 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 on or after 1 March 2019 or
- on any date after 1 March 2019 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.

Rights of holders in event of liquidation

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.

The preference shares qualify as "additional tier 1 capital" for capital adequacy purposes.

NOTES TO THE FINANCIAL STATEMENTS

26. CAPITAL ADEQUACY

Capital management policies

The Banking Group's core capital objectives are to:

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

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

The Banking Group has minimum and trigger levels for 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
- Support the economic risk capital requirements of the business.

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

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

RBNZ Basel III capital ratios	RBNZ minimum ratios	Banking Group		Bank	
		30/09/2017	30/09/2016	30/09/2017	30/09/2016
Unaudited					
Common equity tier 1 capital	4.5%	10.7%	10.0%	9.5%	8.9%
Tier 1 capital	6.0%	14.1%	13.2%	13.0%	12.2%
Total capital	8.0%	14.4%	13.7%	13.3%	12.8%
Buffer ratio	2.5%	6.2%	5.5%		

NOTES TO THE FINANCIAL STATEMENTS

Capital of the Banking Group

	Note	Unaudited 30/09/2017 NZ$m
Tier 1 capital		
Common equity tier 1 capital		
Paid up ordinary shares issued by the Bank	25	8,588
Retained earnings (net of appropriations)		3,845
Accumulated other comprehensive income and other disclosed reserves		48
Less deductions from common equity tier 1 capital		
Goodwill and intangible assets, net of associated deferred tax liabilities		(3,399)
Cash flow hedge reserve		(43)
Expected losses to the extent greater than total eligible allowances for impairment		(312)
Common equity tier 1 capital		8,727
Additional tier 1 capital		
Preference shares	25	300
ANZ Capital Notes	17	2,441
Capital attributable to Bonus Bonds Scheme investors		37
Additional tier 1 capital		2,778
Total tier 1 capital		11,505
Tier 2 capital		
Qualifying tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements		
NZD 835,000,000 perpetual subordinated bond	17	835
Less deductions from tier 2 capital		
Basel III transition adjustment[1]		(601)
Total tier 2 capital		234
Total capital		11,739

Capital requirements of the Banking Group

Unaudited 30/09/2017	Exposure at default NZ$m	Risk weighted exposure or implied risk weighted exposure[2] NZ$m	Total capital requirement NZ$m
Exposures subject to internal ratings based approach	160,456	57,268	4,581
Specialised lending exposures subject to slotting approach	11,631	10,472	838
Exposures subject to standardised approach	1,915	479	38
Equity exposures	8	32	3
Other exposures	3,553	1,674	134
Agri business supervisory adjustment	n/a	1,363	109
Total credit risk	177,563	71,288	5,703
Operational risk	n/a	5,805	464
Market risk	n/a	4,549	364
Total	177,563	81,642	6,531

1 Certain instruments issued by the Bank qualify as tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements. Fixing the base at the nominal amount of such instruments outstanding at 31 December 2012, their recognition is capped at 20% of that base from 1 January 2017; and from 1 January 2018 onwards these instruments will not be included in regulatory capital.

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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
Equity		IRB
Other assets	All other assets not falling within any of the above classes	IRB

Standardised approach

Exposure class	Exposure Type	Reason for Standardised Approach	Future Treatment
Corporate	Merchant card prepayment exposures	System constraints	Move to IRB
	Corporate credit cards	System constraints	Move to IRB
Bank	Qualifying Central Counterparty (QCCP)	Required by Basel III	Standardised

NOTES TO THE FINANCIAL STATEMENTS

Controls surrounding credit risk rating systems

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

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

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

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

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

Capital requirements by asset class under the IRB approach

Unaudited 30/09/2017	Total exposure or principal amount NZ$m	Exposure at default NZ$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures						
Corporate	35,231	35,336	34	56	20,977	1,678
Sovereign	11,309	11,030	5	1	99	8
Bank	6,507	5,804	58	19	1,177	94
Retail mortgages	70,088	70,314	19	21	15,503	1,240
Other retail	5,211	5,302	74	94	5,300	424
Total on-balance sheet exposures	128,346	127,786	26	32	43,056	3,444
Off-balance sheet exposures						
Corporate	12,471	10,025	47	47	4,999	400
Sovereign	128	97	5	1	1	-
Bank	1,410	1,146	51	17	205	16
Retail mortgages	8,066	8,468	16	14	1,258	101
Other retail	5,591	5,609	79	56	3,354	268
Total off-balance sheet exposures	27,666	25,345	44	37	9,817	785
Market related contracts						
Corporate	114,726	3,171	61	80	2,690	215
Sovereign	17,002	82	5	31	27	2
Bank	1,028,806	4,072	62	39	1,678	135
Total market related contracts	1,160,534	7,325	61	57	4,395	352
Total credit risk exposures subject to the IRB approach	1,316,546	160,456	30	34	57,268	4,581

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IRB exposures by customer credit rating

Unaudited 30/09/2017	Probability of default %	Exposure at default NZ$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Corporate						
0 - 2	0.06	6,174	62	45	2,972	238
3 - 4	0.33	21,429	36	40	9,112	729
5	1.02	13,986	33	60	8,840	707
6	2.30	4,833	36	83	4,248	340
7 - 8	15.52	1,711	39	161	2,919	233
Default	100.00	399	46	136	575	46
Total corporate exposures	2.04	48,532	39	56	28,666	2,293
Sovereign						
0	0.01	11,075	5	1	125	10
1 - 8	0.02	134	5	2	2	-
Total sovereign exposures	0.01	11,209	5	1	127	10
Bank						
0	0.03	60	65	18	11	1
1	0.03	9,991	58	25	2,634	211
2 - 4	0.11	969	64	40	412	33
5 - 8	1.26	2	65	115	3	-
Total bank exposures	0.04	11,022	59	26	3,060	245
Retail mortgages						
0 - 3	0.20	21,487	12	5	1,228	98
4	0.46	30,842	18	15	4,835	387
5	0.92	21,044	24	32	7,061	565
6	1.98	4,811	27	62	3,178	254
7 - 8	5.02	395	28	100	421	34
Default	100.00	203	21	18	38	3
Total retail mortgages exposures	0.88	78,782	19	20	16,761	1,341
Other retail						
0 - 2	0.10	584	77	50	306	25
3 - 4	0.26	4,883	78	54	2,811	225
5	1.01	1,856	73	74	1,458	117
6	2.18	1,807	73	90	1,730	138
7 - 8	8.06	1,712	83	128	2,317	185
Default	100.00	69	78	45	32	2
Total other retail exposures	2.56	10,911	77	75	8,654	692
Total credit risk exposures subject to the IRB approach	1.23	160,456	30	34	57,268	4,581

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

NOTES TO THE FINANCIAL STATEMENTS

Specialised lending subject to the slotting approach

Unaudited 30/09/2017	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures				
Strong	3,859	70	2,864	229
Good	5,815	90	5,547	444
Satisfactory	641	115	782	63
Weak	75	250	197	15
Default	42	-	-	-
Total on-balance sheet exposures	10,432	85	9,390	751

	Exposure amount NZ$m	Exposure at default NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Off-balance sheet exposures					
Undrawn commitments and other off balance sheet exposures	1,148	1,101	81	945	76
Market related contracts	2,126	98	132	137	11
Total off-balance sheet exposures	3,274	1,199	85	1,082	87

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

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

Credit risk exposures subject to the standardised approach

Unaudited 30/09/2017	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures				
Corporates	105	78	86	7
Default	1	150	1	-
Total on-balance sheet exposures	106	78	87	7

	Exposure amount NZ$m	Average credit conversion factor %	Exposure at default NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Off-balance sheet exposures						
Undrawn commitments and other off balance sheet exposures	563	57	323	96	328	26
Market related contracts	343,810	-	1,486	4	64	5
Total off balance sheet	344,373	n/a	1,809	20	392	31

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

NOTES TO THE FINANCIAL STATEMENTS

Equity exposures

Unaudited 30/09/2017	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
All equity holdings not deducted from capital	8	400	32	3

Equity exposures have been calculated in accordance with BS2B.

Other exposures

Unaudited 30/09/2017	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Cash	198	-	-	-
New Zealand dollar denominated claims on the Crown and the RBNZ	1,776	-	-	-
Other assets	1,579	100	1,674	134
Total other IRB credit risk exposures	3,553	44	1,674	134

Other exposures have been calculated in accordance with BS2B.

Credit risk mitigation

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

As at 30 September 2017, under the IRB approach, the Banking Group had NZ$1,038 million of Corporate exposures covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

Operational risk

The Banking Group uses the Advanced Measurement Approach for determining its regulatory capital requirement for operational risk calculated in accordance with BS2B. As at 30 September 2017 the Banking Group had an implied risk weighted exposure of NZ$5,805 million for operational risk and an operational risk capital requirement of NZ$464 million.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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 2017.

Unaudited 30/09/2017	Implied risk weighted exposure Period end NZ$m	Peak NZ$m	Aggregate capital charge Period end NZ$m	Peak NZ$m	Peak occurred on
Interest rate risk	4,502	7,271	360	582	6/06/2017
Foreign currency risk	46	152	4	12	20/06/2017
Equity risk	1	1	-	-	30/09/2017
	4,549		364		

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, insurance risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk, value in-force risk, business retention risk and software risk.

The Banking Group's internal capital allocation for these other material risks is NZ$421 million. (2016: NZ$441 million).

Capital adequacy of the Ultimate Parent Bank

Basel III capital ratios

	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
Unaudited				
Common equity tier 1 capital	10.6%	9.6%	10.5%	9.7%
Tier 1 capital	12.6%	11.8%	12.7%	12.1%
Total capital	14.8%	14.3%	14.8%	14.7%

For calculation of minimum capital requirements under Pillar 1 (Capital Requirements) of the Basel Accord, APRA has accredited the Overseas Banking Group to use the Advanced Internal Ratings Based (AIRB) methodology for calculation of credit risk weighted assets and the Advanced Measurement Approach (AMA) for the operational risk weighted asset equivalent.

Under prudential regulations, the Overseas Banking Group is required to maintain a Prudential Capital Ratio (PCR) as determined by APRA. The Overseas Banking Group exceeded the PCR set by APRA as at 30 September 2017 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2017. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 30 September 2017, 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.

NOTES TO THE FINANCIAL STATEMENTS

Residential mortgages by loan-to-valuation ratio (LVR)

As required by the RBNZ, LVRs are calculated as the current exposure secured by a residential mortgage divided by the Banking Group's valuation of the security property at origination of the exposure. Off balance sheet exposures include undrawn and partially 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.

	30/09/2017		
Unaudited	On-balance sheet NZ$m	Off-balance sheet NZ$m	Total NZ$m
LVR range			
Does not exceed 60%	33,292	5,227	38,519
Exceeds 60% and not 70%	15,974	1,346	17,320
Exceeds 70% and not 80%	16,725	1,168	17,893
Does not exceed 80%	65,991	7,741	73,732
Exceeds 80% and not 90%	2,648	137	2,785
Exceeds 90%	1,449	188	1,637
Total	70,088	8,066	78,154

Reconciliation of mortgage related amounts

Unaudited	Note	30/09/2017 NZ$m
Term loans - housing	13	72,524
Less: fair value hedging adjustment		(44)
Less: housing loans made to corporate customers		(2,414)
Add: unsettled re-purchases of mortgages from the NZ Branch		22
On-balance sheet retail mortgage exposures subject to the IRB approach	18	70,088
Add: off-balance sheet retail mortgage exposures subject to the IRB approach		8,066
Total retail mortgage exposures subject to the IRB approach (as per LVR analysis)		78,154

27. SUBSIDIARIES

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.

Principal subsidiaries	Nature of business
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	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
OnePath Life (NZ) Limited	Insurance
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 28.

NOTES TO THE FINANCIAL STATEMENTS

28. STRUCTURED ENTITIES, TRANSFERRED FINANCIAL ASSETS, FIDUCIARY ACTIVITIES AND INSURANCE

Structured entities

The Banking Group's involvement with structured entities is mainly through securitisations and its funds management activities, which are outlined further below. The Banking Group has involvement with structured entities that may be established either by the Banking Group or by a third party.

Consolidated structured entities

Kingfisher NZ Trust 2008-1 (the Kingfisher Trust)

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

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

As at 30 September 2017 and 30 September 2016 the Banking Group had not entered into any repurchase agreements with the RBNZ for residential mortgage backed securities and therefore no collateral had been accepted by the RBNZ under this facility.

ANZNZ Covered Bond Trust (the Covered Bond Trust)

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

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

Unconsolidated securitisations

The Banking Group also has an interest in unconsolidated securitisation entities through the provision of funding facilities or holding bonds or notes issued by such entities. The Banking Group's exposure to these entities is not material.

Transferred financial assets

In the normal course of business the Banking Group enters into transactions where it transfers financial assets directly to third parties or to structured entities. 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.

Assets transferred to the Kingfisher Trust and the Covered Bond Trust

The Bank has purchased securities issued by both the Kingfisher Trust and the Covered Bond Trust in exchange for the transfer of the rights to the cash flows associated with the identified residential mortgages. As at 30 September 2017, NZ$20,551 million of assets were held in the Kingfisher Trust and the Covered Bond Trust (2016: NZ$19,656 million).

Repurchase transactions

Securities sold subject to repurchase agreements are not derecognised when substantially all the risks and rewards of ownership remain with the Bank. See note 21 for details of securities sold under agreements to repurchase. The amount of trading securities encumbered through repurchase agreements is shown in note 22. The carrying amount of the associated liabilities is not materially different to the amount of trading securities subject to the repurchase agreement.

NOTES TO THE FINANCIAL STATEMENTS

Funds management and other fiduciary activities

Funds management

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

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

Some funds under management are invested in products owned or securities issued by the Banking Group and are recorded as liabilities in the balance sheet. At 30 September 2017, NZ$3,964 million of funds under management were invested in the Banking Group's own products or securities (2016: NZ$3,698 million).

Custodial services

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

	30/09/2017 NZ$m	30/09/2016 NZ$m
Kiwisaver	11,047	9,295
Bonus Bonds Scheme	3,405	3,561
Other managed funds	1,984	1,924
ANZ PIE Fund[1]	1,381	953
Discretionary Investment Management Service (DIMS)[2]	7,193	7,007
Other investment portfolios[2]	3,480	3,745
Total funds under management	28,490	26,485
Funds under custodial arrangements	7,720	7,408
Other funds held or managed subject to fiduciary responsibilities	1,557	1,927
Funds management fee income from structured entities	170	156

1 The Banking Group established, and is considered to be the sponsor of, the ANZ PIE Fund. The ANZ PIE Fund invests only in deposits with the Bank. The Banking Group does not receive a management fee from, and does not have an interest in, the ANZ PIE Fund.
2 These funds are not structured entities as they are investment portfolios managed on behalf of customers.

Provision of financial services

Financial services provided by the Banking Group to entities which are involved in trust, custodial, funds management and other fiduciary activities are provided on arm's length terms and conditions and at fair value. Any assets purchased from such entities have been purchased on an arm's length basis and at fair value. The Banking Group does not have any affiliated insurance entities or affiliated insurance groups that are not members of the Banking Group.

Except for standard lending facilities provided in the normal course of business on arm's length terms, the Banking Group has not provided any funding to entities where trust, custodial, funds management or other fiduciary activities are established, marketed and/or sponsored by a member of the Banking Group (2016: nil).

Insurance business

The Banking Group conducts insurance business through its subsidiary OnePath Life (NZ) Limited (OnePath Life).

The Banking Group's aggregate amount of insurance business comprises the total consolidated assets of OnePath Life of NZ$921 million (2016: NZ$926 million), which is 0.6% (2016: 0.6%) of the total consolidated assets of the Banking Group.

Risk management

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

NOTES TO THE FINANCIAL STATEMENTS

29. ASSETS AND LIABILITIES HELD FOR SALE

On 11 January 2017, the Bank announced that it had entered into a conditional agreement to sell UDC to HNA Group. The sale is subject to certain conditions (including regulatory approvals) and the Banking Group is working with HNA Group towards completion of the sale.

The assets and liabilities of UDC are classified as held for sale as at 30 September 2017. The following assets and liabilities of UDC held for sale are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets and financial assets which are specifically exempt from this requirement.

	30/09/2017 NZ$m
Net loans and advances	2,912
Goodwill	133
Other assets	20
Total UDC assets held for sale	3,065
Deposits and other borrowings	1,039
Payables and other liabilities	33
Current tax liabilities	24
Deferred tax liabilities	(9)
Employee entitlements	1
Total UDC liabilities held for sale	1,088

NOTES TO THE FINANCIAL STATEMENTS

30. RELATED PARTY DISCLOSURES

Key management personnel

Key management personnel (KMP) are defined as directors and those executives who report directly to the Bank's Chief Executive Officer with responsibility for the strategic direction and management of a major revenue generating division or who control material revenue and expenses.

Loans made to directors and other KMP 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.

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. All such transactions that have occurred with KMP and their related parties have been trivial or domestic in nature. In this context, transactions are only disclosed when they are considered of interest to the users of the financial statements in making and evaluating decisions about the allocation of scarce resources.

	Year to 30/09/2017 NZ$000	Year to 30/09/2016 NZ$000
Key management personnel compensation		
Salaries and short-term employee benefits	11,430	11,382
Post-employment benefits	480	280
Other long-term benefits	60	88
Share-based payments expense	3,515	4,123
Total compensation of key management personnel	15,485	15,873
Loans to, and securities held by, key management personnel and their related parties		
Loans	5,102	7,373
Unsubordinated debt	520	520
Subordinated debt	190	190

Transactions with other related parties

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. Transactions with related parties outside of the Banking Group are conducted on an arm's length basis and on normal commercial terms.

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

Transactions with related parties

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Interest income	32	49
Interest expense	146	87
Fee income	14	19
Gain/(loss) on sale of mortgages to the NZ Branch	(1)	1
Other operating income	23	19
Operating expenses	46	64
Mortgages sold to the NZ Branch	481	697
Immediate Parent Company		
Interest expense	1	1
Associates		
Direct fee expense	10	10
Dividends received	5	2
Share of associates' profit	5	5

NOTES TO THE FINANCIAL STATEMENTS

Balances with related parties

	30/09/2017 NZ$m	30/09/2016 NZ$m
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Cash	64	47
Settlement balances receivable	111	31
Collateral paid	-	375
Derivative financial instruments	2,623	4,361
Other assets	42	108
Immediate Parent Company		
Derivative financial instruments	4	-
Associates		
Investments in associates	7	7
Total due from related parties	2,851	4,929
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Settlement balances payable	220	323
Collateral received	198	-
Deposits and other borrowings	11	-
Derivative financial instruments	2,486	4,818
Payables and other liabilities	31	32
Subordinated debt	1,951	1,951
Immediate Parent Company		
Deposits and other borrowings	62	29
Associates		
Payables and other liabilities	1	1
Total due to related parties	4,960	7,154

Balances due from / to related parties are unsecured. The Bank has provided guarantees and commitments to related parties as follows:

	30/09/2017 NZ$m	30/09/2016 NZ$m
Financial guarantees provided to the Ultimate Parent Bank	155	152
Undrawn credit commitments provided to the Immediate Parent Company	250	250

NOTES TO THE FINANCIAL STATEMENTS

31. CAPITAL EXPENDITURE AND OPERATING LEASE COMMITMENTS

	30/09/2017 NZ$m	30/09/2016 NZ$m
Contracts for outstanding capital expenditure		
Not later than 1 year	4	5
Future minimum lease payments under non-cancellable operating leases		
Not later than 1 year	84	87
Later than 1 year but not later than 5 years	256	217
Later than 5 years	144	151
Total operating lease commitments	484	455
Total commitments	488	460

32. COMPENSATION OF AUDITORS

	Year to 30/09/2017 NZ$000	Year to 30/09/2016 NZ$000
Compensation of auditors (KPMG New Zealand)		
Audit or review of financial statements[1]	2,227	2,219
Other services:		
Prudential and regulatory services[2]	225	262
Offer documents assurance or review	146	100
Other assurance services[3]	95	52
Total other services	466	414
Total compensation of auditors relating to the Banking Group	2,693	2,633
Fees relating to certain managed funds and not recharged[4]	46	48
Total compensation of auditors	2,739	2,681

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 controls reports, comfort letters 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 and audits of summary financial statements for inclusion in offer documents, comfort letters and other agreed upon procedures engagements.

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

NOTES TO THE FINANCIAL STATEMENTS

33. CONCENTRATIONS OF CREDIT RISK TO INDIVIDUAL COUNTERPARTIES

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

For the three months ended 30 September 2017 there were no individual counterparties (excluding connected parties, governments and banks with long term credit ratings of A- or above) where the Banking Group's period end or peak end-of-day credit exposure equalled or exceeded 10% of equity (as at the end of the period).

Concentrations of credit risk to connected persons

Credit exposures to connected persons reported in the table below have been calculated partially on a bilateral net basis and partially on a gross basis. Netting has occurred (up to a limit of 125% of the Banking Group's tier 1 capital) in respect of certain transactions which are the subject of a bilateral netting agreement.

This information has been derived in accordance with the Bank's conditions of registration and the RBNZ document *Connected Exposures Policy* (BS8). The exposures are net of individual credit impairment allowances and exclude advances to connected persons of a capital nature.

	30/09/2017		30/09/2016	
	Amount NZ$m	% of Tier 1 Capital	Amount NZ$m	% of Tier 1 Capital
Aggregate at end of year[1]				
Bank connected persons (on gross basis, before netting)	8,074	70.2%	9,349	81.3%
Less: amount netted off	5,230	45.5%	7,619	66.2%
Bank connected persons (on partial bilateral net basis)	2,844	24.7%	1,730	15.1%
Non-bank connected persons[2]	-	0.0%	1	0.0%
Peak end-of-day for the year[3]				
Bank connected persons (on gross basis, before netting)	8,382	72.9%	9,352	81.3%
Less: amount netted off	5,336	46.4%	5,353	46.5%
Bank connected persons (on partial bilateral net basis)	3,046	26.5%	3,999	34.8%
Non-bank connected persons[2]	1	0.0%	4	0.0%
Rating-contingent limit[4]				
Bank connected persons (on a gross basis, before netting)	n/a	125.0%	n/a	125.0%
Bank connected persons (on partial bilateral net basis)	n/a	60.0%	n/a	70.0%
Non-bank connected persons	n/a	15.0%	n/a	15.0%

1 The Banking Group has amounts due from the Immediate Parent Company and the Ultimate Parent Bank and other entities within the Overseas Banking Group arising in the ordinary course of business. These balances arise primarily from unrealised gains on trading and hedging derivative financial instruments with the Ultimate Parent Bank. As at 30 September 2017, the gross exposures to the Immediate Parent Company were NZ$7 million (2016: NZ$3 million). As at 30 September 2017, the gross exposures to the Ultimate Parent Bank were NZ$8,067 million (2016: NZ$9,346 million).

2 Non-bank connected persons exposures comprise loans to directors of the Bank.

3 The Banking Group has complied with the limits on aggregate credit exposure (of a non-capital nature and net of individual provisions) to connected persons and non-bank connected persons, as set out in the Conditions of Registration, at all times during the year. The peak end-of-day credit exposure ratios for the year to connected persons are measured over Tier 1 Capital as at the end of the year. Previously Tier 1 Capital as at the beginning of the month in which the peak aggregate amount of credit exposure occurred was used to calculate the peak ratios, and comparative ratios have been updated. Both methods are allowed by the Order, and the change was made to make these disclosures consistent with private regulatory reporting submitted to the RBNZ.

4 Represents the maximum peak end-of-day aggregate credit exposures limit (of a non-capital nature and net of individual provisions) to all connected persons. This limit is based on the ratings applicable to the Bank's long term senior unsecured obligations payable in New Zealand in New Zealand dollars. Within the overall limit a sub-limit of 15% of Tier 1 Capital applies to aggregate credit exposures (exclusive of exposures of a capital nature and net of individual provisions) to non-bank connected persons. There have been no changes to these limits for the year ended 30 September 2017.

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT FRAMEWORK

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

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

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

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

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

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

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

The Audit Committee has responsibility for ensuring the integrity of the Banking Group's financial controls, reporting systems and internal audit standards. It meets at least four times a year and reports directly to the Board. All members of the Audit Committee are non-executive directors.

Financial risk management

Refer to note 18 for detailed disclosures on the Banking Group's financial risk management policies.

Operational Risk

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

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

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

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

Compliance

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

Internal Audit

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 utilising a risk based approach and is refreshed on a quarterly basis. 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, Risk 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.

HISTORICAL SUMMARY OF FINANCIAL STATEMENTS

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m	Year to 30/09/2015 NZ$m	Year to 30/09/2014 NZ$m	Year to 30/09/2013 NZ$m
Interest income	6,198	6,423	6,926	6,272	5,957
Interest expense	3,161	3,421	4,051	3,529	3,344
Net interest income	3,037	3,002	2,875	2,743	2,613
Non-interest income	938	852	1,175	1,085	823
Operating income	3,975	3,854	4,050	3,828	3,436
Operating expenses	1,468	1,599	1,512	1,489	1,512
Credit impairment charge / (release)	62	150	74	(16)	63
Profit before income tax	2,445	2,105	2,464	2,355	1,861
Income tax expense	680	570	681	639	490
Profit after income tax	1,765	1,535	1,783	1,716	1,371
Dividends paid	(1,695)	(1,363)	(1,760)	(2,353)	(1,065)
Share capital issued	-	-	675	970	300

	As at 30/09/2017 NZ$m	As at 30/09/2016 NZ$m	As at 30/09/2015 NZ$m	As at 30/09/2014 NZ$m	As at 30/09/2013 NZ$m
Total impaired assets	357	426	382	634	901
Total assets	153,973	160,819	147,527	128,915	120,444
Total liabilities	141,192	148,109	135,074	117,134	108,990
Equity	12,781	12,710	12,453	11,781	11,454

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

GENERAL DISCLOSURES

General Matters

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

The Bank is incorporated under the Companies Act 1993. The Bank is wholly owned by its Immediate Parent Company and ultimately by the Ultimate Parent Bank. The Immediate Parent Company of the Bank is incorporated in New Zealand and owned by ANZ Funds Pty Limited and the Ultimate Parent Bank (both incorporated in Australia). The address for service for the Ultimate Parent Bank is ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

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

Financial Support

The Ultimate Parent Bank may not provide financial support in breach of the Australian Banking Act 1959 (the Act). Under the Act:

- APRA must exercise its powers and functions for the protection of a bank's depositors 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 in priority to all other liabilities of the bank.

Under APRA's Prudential Standards, the Ultimate Parent Bank's ability to provide financial support to the Bank is subject to certain requirements:

- The Ultimate Parent Bank should not undertake any third party dealings with the prime purpose of supporting the business of the Bank.
- The Ultimate Parent Bank should not hold unlimited exposures (should be limited as to specified time and amount) in the Bank (e.g. not provide a general guarantee covering any of the Bank's obligations).
- The Ultimate Parent Bank should not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default by the Ultimate Parent Bank on its obligations.
- The level of exposure of the Ultimate Parent Bank's Level 1 capital base to the Bank should not exceed:
  - 50% on an individual exposure basis or
  - 150% in aggregate (being exposures to all similar regulated entities related to the Ultimate Parent Bank).

In addition, APRA has reviewed the level of financial exposures that can be provided to the respective New Zealand banking subsidiaries and branches (New Zealand operations) of the four Australian parent banks, including the Ultimate Parent Bank.

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 during ordinary times. Exposures in excess of this limit as at 1 January 2016 must be reduced in equal percentages over the five year transition period and may not increase above the exposures as at 30 June 2015. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to the Bank during times of financial stress.

The Ultimate Parent Bank established a New Zealand branch which was registered on 5 January 2009. The Bank sells, from time-to-time, residential mortgages into the NZ Branch to provide funding for the Bank's business. As at 30 September 2017, the NZ Branch held approximately NZ$4.3 billion of residential mortgages. To satisfy APRA's requirements described above, the Bank intends to repay this funding at approximately NZ$1.6 billion per annum over the transition period ending 31 December 2020.

APRA has also stated 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 and the Ultimate Parent Bank's exposures to the Bank and its other New Zealand operations must not exceed 50% of the Ultimate Parent Bank's Level 1 Tier 1 capital base. At present, only covered bonds meet APRA's criteria for contingent funding. On this basis, the Ultimate Parent Bank believes it will be able to continue to provide financial support to the Bank.

Further, from 1 July 2017, APRA's Level 3 Conglomerates regulations became effective which limit the financial and operational assistance the Ultimate Parent Bank can provide the Bank.

In determining the acceptable level of financial and operational exposure to the Bank, 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 impact on the Ultimate Parent Bank's capital and liquidity position 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.

Guarantors

No material obligations of the Bank are guaranteed as at 15 November 2017.

GENERAL DISCLOSURES

ANZNZ Covered Bond Trust

Certain debt securities (Covered Bonds) issued by the Bank's wholly owned subsidiary, ANZ New Zealand (Int'l) Limited, are guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor has guaranteed the payment of interest and principal of Covered Bonds with a carrying value as at 30 September 2017 of NZ$5,325 million, pursuant to a guarantee which is secured over a pool of assets. 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. Details of the pool of assets that secure this guarantee are provided in note 28.

Credit Rating Information

As at 15 November 2017 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 19 June 2017, Moody's Investors Service downgraded the Bank's credit rating from Aa3 to A1 and changed the outlook on the Bank from Negative to Stable.

The Bank's credit ratings are:

Rating Agency	Current Credit Rating	Qualification
Standard & Poor's	AA-	Outlook Negative
Moody's Investors Service	A1	Outlook Stable
Fitch Ratings	AA-	Outlook Stable

The following table describes the credit rating grades available:

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

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

CONDITIONS OF REGISTRATION

Conditions of Registration, applicable as at 30 September 2017. These Conditions of Registration have applied from 1 October 2016.

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; and

    (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,-

    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.

    "Total capital ratio", "Tier 1 capital ratio", "Common Equity Tier 1 capital ratio", and "Total capital" must be calculated in accordance with 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 banking group complies with all requirements set out in the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015.

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.

    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.

CONDITIONS OF REGISTRATION

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 percent of the banking group's Tier 1 capital.

   For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected 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:

   (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.

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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.

   For the purposes of this condition of registration, the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006.
12. That:
   (a) the business and affairs of the bank are managed by, or under the direction 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 decision 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 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 July 2014 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.
14. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:
   (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
   (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
   (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
   (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.
15. That no more than 10% of total assets may be beneficially owned by a SPV.

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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—

(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;

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(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 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 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 loans with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential 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 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 21 to 23, —

"loan-to-valuation ratio", "non property-investment residential loans", "property-investment residential loans", "qualifying new mortgage lending amount in respect of property-investment residential loans", "qualifying new mortgage lending amount in respect of non property-investment residential loans" and "residential mortgage loans" 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 October 2016:

"loan-to-valuation measurement period" means—

(a) the six calendar month period ending on the last day of December 2016; 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 January 2017.

DIRECTORATE AND AUDITOR

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

Directors' interests

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

- At least once in each year, Directors are requested to complete, in terms of section 140(1) of the Companies Act 1993, a disclosure of any interests which they have with the Bank itself. Directors are reminded at this time of their obligation under the Companies Act 1993 to disclose promptly any transaction or proposed transaction with the Bank in which they have an interest.
- Directors are also requested to make a general disclosure of their interest in other entities in terms of section 140(2) of the Companies Act 1993. In addition, they are requested to initiate a review of that disclosure if there are any significant alterations which occur subsequently during the period.

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

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

Transactions with Directors

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

Board Members as at 15 November 2017

Independent Non-Executive Director and Chair

John Frederick Judge
BCom, FCA
Company Director
Auckland, New Zealand

Mr Judge is a member of the Audit Committee, the Human Resources Committee and the Risk Committee.

Other directorships: Aquatx Holdings Limited, Biotelliga Limited, Biotelliga Holdings Limited, Biotelliga Nominees Limited, Endogen Limited, Janohn Limited, Sebca Limited, John Judge Limited, Cup Limited, Sails Friday Limited, The New Zealand Initiative Limited, Hydraulink Fluid Connectors Limited, Analog Digital Instruments Limited, Hydraulink Australia Pty Limited, ADInstruments Pty Limited, ADInstruments NZ Limited

Executive Director

David Duncan Hisco
BBus, MBA
Chief Executive, ANZ Bank New Zealand Limited
Auckland, New Zealand

Other directorships: ANZ Holdings (New Zealand) Limited

Non-Executive Directors

Shayne Cary Elliott
BCom
Chief Executive Officer, Australia and New Zealand Banking Group Limited
Melbourne, Australia

Mr Elliott is a member of the Human Resources Committee.

Other directorships: ANZ Holdings (New Zealand) Limited, Australia and New Zealand Banking Group Limited and the Financial Markets Foundation for Children

Michelle Nicole Jablko
LLB (Hons), B.Ec (Hons)
Chief Financial Officer, Australia and New Zealand Banking Group Limited
Melbourne, Australia

Ms Jablko is an alternate director for Mr Elliott

Nigel Henry Murray Williams
BCom
Chief Risk Officer, Australia and New Zealand Banking Group Limited
Melbourne, Australia

Other directorships: Shanghai Rural Commercial Bank Co. Limited

Mr Williams is a member of the Risk Committee and Audit Committee.

DIRECTORATE AND AUDITOR

Independent Non-Executive Directors

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

Mr Carter is the Chair of the Risk Committee and a member of the Audit Committee and the Human Resources Committee.

Other directorships: Air New Zealand Limited, Avonhead Mall Limited, Blues Management Limited, Fletcher Building Limited, Fisher & Paykel Healthcare Corporation Limited, Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited, Fletcher Building Industries Limited, Loughborough Investments Limited, Modern Merchants Limited, Strategic Interchange Limited, Tetrad Corporation Limited

The Rt Hon. Sir John Phillip Key, GNZM, AC
BCom
Company Director
Auckland, New Zealand

Sir John is a member of the Risk Committee, Audit Committee and the Human Resources Committee.

Other directorships: Air New Zealand Limited, Thirty Eight JK Limited

Mark John Verbiest
LLB, CFInstD
Company Director
Wanaka, New Zealand

Mr Verbiest is the Chair of the Audit Committee and a member of the Human Resources Committee and the Risk Committee.

Other directorships: Bear Fund NZ Limited, Freightways Limited, Willis Bond Capital Partners Limited, Willis Bond General Partner Limited, MyCare Limited, The Treasury, Meridian Energy Limited

Joan Withers
MBA, AFInstD
Company Director
Auckland, New Zealand

Mrs Withers is the Chair of the Human Resources Committee and a member of the Risk Committee and the Audit Committee.

Other directorships: Mercury NZ Limited, The Warehouse Group Limited, On Being Bold Limited, The Warehouse Planit Trustees Limited, The Warehouse Management Trustee Company Limited, The Warehouse Management Trustee Company No.2 Limited

Auditor

KPMG

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

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
- The Disclosure Statement is not false or misleading.

Over the year ended 30 September 2017, after due enquiry, each Director believes that:

- 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
- 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, 15 November 2017.

Antony Carter

Shayne Elliott

David Hisco

John Judge

The Rt Hon. Sir John Key, GNZM, AC

Mark Verbiest

Nigel Williams

Joan Withers

KPMG

Independent Auditor's Report

To the shareholder of ANZ Bank New Zealand Limited

Report on the Banking Group Disclosure Statement

Opinion

In our opinion, the accompanying consolidated financial statements (excluding supplementary information) of ANZ Bank New Zealand Limited (the company) and its subsidiaries (the Banking Group) on pages 3 to 67:

— give a true and fair view of the Banking Group's financial position as at 30 September 2017 and its financial performance and cash flows for the year ended on that date

— 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 supplementary 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) and is included within the Balance Sheet and notes 14, 18, 28 and 33 of the Disclosure Statement:

— has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration

— is in accordance with the books and records of the Banking Group in all material respects

— fairly states the matters to which it relates in accordance with those Schedules

We have audited the accompanying consolidated financial statements and supplementary information which comprise:

— the consolidated balance sheet as at 30 September 2017

— 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

— the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order.

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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 (NZ) are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements and supplementary information 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.

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.

The key audit matter

Provisions for Credit Impairment

The provision for credit impairment is a Key Audit Matter as the Banking Group has significant credit risk exposure to a large number of counterparties across a wide range of lending and industries. The value of loans and advances on the balance sheet is significant and there is a high degree of complexity and judgement involved for the Banking Group in estimating individual and collective credit impairment provisions against these loans. These features resulted in significant audit effort to address the risks around loan recoverability and the determination of related provisions.

How the matter was addressed in our audit

Our audit procedures for the individual and collective provision for credit impairment included:

Provisions against specific individual loans (individual provision)

— Testing the key controls over counterparty risk grading for wholesale loans (larger customer exposures that are monitored individually). We tested the approval of new lending facilities against the Banking Group's lending policies, the performance of annual loan assessments, and controls over the monitoring of counterparty credit quality. This included testing controls over the identification of exposures showing signs of stress, either due to internal factors specific to the counterparty or external macroeconomic factors, and testing the timeliness of and the accuracy of counterparty risk assessments and risk grading against the requirements of the Banking Group's lending policies

- Performing credit assessments of a sample of wholesale loans managed 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, their assessment of loan recoverability and the impact on the credit provision. To do this, we used the information on the Banking Group's loan file, discussed the case with the loan officer and management, and performed our own assessment of recoverability. This involved using our understanding of relevant industries and the macroeconomic environment, and comparing assumptions of inputs used by the Banking Group in recoverability assessments to externally sourced evidence, such as commodity prices, publicly available audited financial statements, and comparable external valuations of collateral held

- For retail loans (smaller customer exposures not monitored individually), we evaluated the Banking Group's oversight of the portfolios, with a focus on controls over delinquency statistics monitoring. We tested the level of provisions held against different loan products, on a sample basis, based on the delinquency profile and challenged assumptions made in respect of expected recoveries, primarily from collateral held.

Provisions estimated across loan portfolios (collective provision)

- Testing the Banking Group's processes to validate the models used to calculate collective provisions, and evaluating the Banking Group's model methodologies against established market practices and criteria in the accounting standards

- Testing the key controls within IT systems used to calculate the collective provision, specifically those relating to data management and the completeness and accuracy of data transfer from underlying source systems to the collective provision models

- Testing the accuracy of key inputs into models by checking a sample of balances to the general ledger and risk ratings to source systems

- Challenging the key assumptions in the models such as emergence periods, probability of default and loss given default for a sample of retail and wholesale portfolios. We compared modelled estimates against actual losses incurred by the Banking Group

- Re-performing, for a sample of retail and wholesale portfolios and using a KPMG-constructed calculation tool, the calculation of collective provisions to determine the accuracy of model output.

We also challenged key assumptions in the components of the Banking Group's collective provision balance held above modelled provision estimates. This included:

- Evaluating inputs to the concentration risk and economic cycle provisions 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 provisions by considering model or data deficiencies identified by the Banking Group's model validation processes

- Assessing the completeness of additional provisions by checking the consistency of risks identified in the portfolios to their inclusion in the Banking Group's assessment.

The key audit matter

Valuation of Financial Instruments

Financial instruments held at fair value on the Banking Group's balance sheet include available-for-sale-assets, trading securities, derivative assets and liabilities, investments backing insurance contract liabilities, certain debt securities, 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 or used by the Banking Group to manage its own interest rate and foreign exchange risk.

The valuation of financial instruments is considered a Key Audit Matter due to:

- Financial instruments held at fair value are significant (16% of assets and 10% of liabilities)
- The significant volume and range of products transacted, increases the risk of inconsistencies in transaction management processes that could lead to inaccurate valuation
- Determining the fair value of trading securities and derivatives involves a significant level of judgement by the Banking Group, increasing the risk of error, and adding complexity to our audit. The level of judgement increases where internal models, as opposed to quoted market prices, are used to determine fair value of an instrument
- 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, and industry practice is evolving as to how the impact of both funding and credit risk is incorporated within the valuation of certain derivative instruments. This increased our audit effort in this area and necessitated the involvement of valuation specialists.

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 transaction management and 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 product control function
- Testing the management review and approval of model construction and validation, aimed at assessing the validity and robustness of underlying valuation models
- Testing the Banking Group's data validation controls, such as those over key inputs in generating the fair value to market data where fair values were determined by front office teams.

We carried out testing over the valuation of financial instruments with both observable and unobservable inputs. Our specific testing involved valuation specialists and included:

- Re-performing the valuation of 'level 1' and 'level 2' available for sale assets 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

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- Using independent models, re-calculating 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
- Where the fair value of derivatives and other financial assets and liabilities were determined using unobservable inputs ('level 3' instruments), challenging the Banking Group's valuation model by testing the key inputs used to comparable data in the market, including the use of proxy instruments and available alternatives
- Evaluating the appropriateness of the Banking Group's valuation methodology for derivative financial instruments, having regard to current and emerging derivative valuation practices across a range of peer institutions and against the required criteria in the accounting standards. We tested adjustments made to valuations, particularly funding and credit valuation adjustments on un-collateralised derivatives. In particular, for a sample of individual counterparties, we tested key inputs to the credit valuation adjustment calculation, including the probability of default, against observable market data. Where proxies were used, we assessed the proxy against available alternatives across a number of locations.

The key audit matter

IT systems and controls

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. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

How the matter was addressed in our audit

We tested the control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems. Our audit procedures included:

- Testing the governance controls used by the Banking Group's technology teams and third party suppliers to monitor system integrity, by checking matters impacting the operational integrity of core systems for escalation and action in accordance with the Banking Group's policies
- Testing the access rights given to staff by checking them to approved records, and inspecting the reports over the granting and removal of access rights. We also looked for evidence of escalation of breaches
- Testing preventative controls designed to enforce segregation of duties between users within particular systems
- Testing the operating effectiveness of automated controls, principally relating to the automated calculation of financial transactions. We tested the inputs used within automated calculations to source data and also tested the accuracy of the calculation logic for a sample of transactions within each identified control
- Testing the operating effectiveness of automated reconciliation controls, both between systems and intra-system. For a sample of identified breaks, in reconciliations, we checked that these were recorded on exception reports, and subsequently investigated and cleared by the Banking Group.

Other Supplementary Information

The Directors, on behalf of the Banking Group, are responsible for the other information included in the Banking Group's Disclosure Statement. Other information includes the information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order. Our opinion on the consolidated financial statements does not cover any 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.

Report on other legal and regulatory requirements

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

— in our opinion, proper accounting records have been kept by the Banking Group, as far as appears from our examination of those records.

Responsibilities of Directors for the consolidated financial statements and supplementary information

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 controls to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error

— 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 supplementary information

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 supplementary information, 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

— to issue an 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 International Standards on Auditing (New Zealand) 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 this 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:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our Auditor's Report.

Review conclusion on the supplementary information relating to Capital Adequacy

Based on our review, nothing has come to our attention that causes us to believe that the information relating to Capital Adequacy, disclosed in note 26 to the Disclosure Statement, is not, in all material respects:

- prepared in accordance with the Banking Group's conditions of registration
- disclosed in accordance with Schedule 11 of the Order.

We have reviewed the information relating to Capital Adequacy, as disclosed in note 26 of the Disclosure Statement for the year ended 30 September 2017. The information relating to Capital Adequacy comprises the information that is required to be disclosed in accordance with Schedule 11 of the Order.

Basis for conclusion on the supplementary information relating to Capital Adequacy

A review of the supplementary information relating to Capital Adequacy 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 supplementary information relating to capital adequacy 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.

Responsibilities of Directors for the supplementary information relating to capital adequacy

The Directors are responsible for the preparation of information relating to Capital Adequacy that is required to be disclosed under Schedule 11 of the Order and prepared in accordance with the Capital Adequacy Framework (Internal Models Based Approach) (BS2B) and described in note 26 to the Disclosure Statement.

Auditor's Responsibilities for the Review of the supplementary information relating to capital adequacy

Our responsibility is to express a conclusion on the Capital Adequacy information based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410) issued by the XRB. As the auditor of ANZ Bank New Zealand Limited, 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 capital adequacy information is, in all material respects:

- prepared in accordance with the Banking Group's conditions of registration
- disclosed in accordance with Schedule 11 of the Order.

A review of the Capital Adequacy information 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 International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the information relating to Capital Adequacy disclosures.

Use of this Auditor's Report

This report is made solely to the shareholder as a body. Our work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the 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 work, this 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 Graeme Edwards.

For and on behalf of

KPMG

KPMG
Wellington

15 November 2017

anz.co.nz

Annex A-1-ANZNIL Financial Statements

Contents

ANZ NEW ZEALAND (INT'L) LIMITED
ANNUAL ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2018

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	Note	2018 NZ$m	2017 NZ$m
Interest income	6	382	315
Interest expense	2	374	308
Total income		8	7
Operating expenses		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	2018 NZ$m	2017 NZ$m
Assets			
Due from the Parent Company	6	21,314	21,263
Total assets		21,314	21,263
Liabilities			
Accrued interest payable		40	36
Commercial paper	4	2,486	3,719
Current tax liabilities		1	1
Payables and other liabilities		1	-
Debt issuances	5	18,781	17,502
Total liabilities		21,309	21,258
Net assets		5	5
Equity			
Retained profits		5	5
Total equity	8	5	5

For and on behalf of the Board of Directors:

Penny Dell
Director
30 November 2018

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

CASH FLOW STATEMENT

For the year ended 30 September	2018 NZ$m	2017 NZ$m
Cash flows from operating activities		
Interest received	377	339
Interest paid	(370)	(332)
Tax paid	(2)	(2)
Net cash flows provided by operating activities	5	5
Cash flows from investing activities		
Decrease in due from the Parent Company	1,667	525
Net cash flows provided by investing activities	1,667	525
Cash flows from financing activities		
Proceeds from debt issuances	2,510	4,097
Decrease in commercial paper	(1,457)	(1,658)
Redemption of debt issuances	(2,720)	(2,964)
Dividends paid	(5)	(5)
Net cash flows used in financing activities	(1,672)	(530)
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
Adjustments		
Change in accrued interest receivable	(5)	24
Change in accrued interest payable	4	(24)
Change in payables and other liabilities	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 2016		5	5
Profit after income tax		5	5
Ordinary dividend paid	8	(5)	(5)
As at 30 September 2017		5	5
Profit after income tax		5	5
Ordinary dividend paid	8	(5)	(5)
As at 30 September 2018		5	5

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

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

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

There have been no 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).

(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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 not early adopted

***NZ IFRS 9 Financial Instruments* (NZ IFRS 9)**

NZ IFRS 9 is effective for the Company 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.

Based on the portfolio of in-scope financial assets held as at 30 September 2018, economic conditions prevailing at the time and management's judgements and estimates, the application of NZ IFRS 9 as at 1 October 2018 has resulted in higher aggregate impairment provisions of approximately NZ$3 million, and the impact on total equity is a reduction of approximately NZ$3 million. These estimates remain subject to change until the Company finalises its financial statements for the year ending 30 September 2019.

2. INTEREST EXPENSE

	2018 NZ$m	2017 NZ$m
Commercial paper	51	51
Debt issuances	323	257
Total interest expense	**374**	308

3. INCOME TAX

	2018 NZ$m	2017 NZ$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

	2018 NZ$m	2017 NZ$m
U.S. commercial paper	2,486	3,654
Euro commercial paper	-	65
Total commercial paper	**2,486**	3,719

Commercial paper issued is guaranteed by the Parent Company.

5. DEBT ISSUANCES

	2018 NZ$m	2017 NZ$m
U.S. medium term notes	10,213	9,004
Euro medium term notes	4,610	3,173
Covered bonds	3,958	5,325
Total debt issued	**18,781**	17,502

Debt issuances are guaranteed by the Parent Company. Debt issuances, other than covered bonds, are 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 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.

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.

	2018 NZ$000	2017 NZ$000
Audit or review of financial statements	38	38
Other services:		
Review of offer documents	104	130
Other assurance services	16	16
Total other services	120	146
Total fees paid to auditors by the Parent Company	**158**	184

Balances with related parties

Cash at bank comprises short term deposits with the Parent Company.

Amounts due from the Parent Company are lent on similar terms as the underlying funding raised.

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.

	2018			2017		
	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	5,575	15,739	21,314	6,456	14,807	21,263
Liabilities						
Debt issuances	3,042	15,739	18,781	2,695	14,807	17,502

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 shareholder 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's dividend policy is to distribute all retained profits to the Parent Company.

Ordinary share capital

The Company's share capital consists of 500,000 (2017: 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.

The dividend on ordinary shares was $9.79 per share (2017: $8.45 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.

2018	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
Liabilities						
Commercial paper	2,506	986	1,520	-	-	-
Debt issuances	20,011	901	2,470	12,982	3,658	-
Payables and other liabilties	1	1	-	-	-	-
Total financial liabilities	22,518	1,888	3,990	12,982	3,658	-
2017						
Liabilities						
Commercial paper	3,744	1,118	2,626	-	-	-
Debt issuance	18,534	1,256	1,720	12,422	3,136	-
Total financial liabilities	22,278	2,374	4,346	12,422	3,136	-

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:

	2018		2017	
	Carrying amount NZ$m	Fair value NZ$m	Carrying amount NZ$m	Fair value NZ$m
Financial assets				
Due from the Parent Company	21,314	21,092	21,263	21,345
Financial liabilities				
Commercial paper	2,486	2,486	3,719	3,721
Debt issuances	18,781	18,559	17,502	17,582

Independent Auditor's Report

To the shareholder of ANZ New Zealand (Int'l) Limited

Report on 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 2018 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 2018;

— 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.

Other information

The Directors, on behalf of the Company, are responsible for the other information included in the Company's Annual Financial Report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

KPMG

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

30 November 2018

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ANZ NEW ZEALAND (INT'L) LIMITED
ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2017

MANAGEMENT REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2017

Nature of Business

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, New Zealand. The ultimate parent company is Australia and New Zealand Banking Group Limited (the Ultimate Parent), which is incorporated in Victoria, Australia.

The Company provides funding facilities and wholesale funding to its parent company, ANZ Bank New Zealand Limited (the Parent Company) including the issuance of U.S. Commercial Paper, Euro-Commercial Paper, U.S. Medium-Term Notes, Euro Medium-Term Notes and Covered Bonds. The Company's overseas activities are currently conducted through its London branch. The Company has no subsidiaries.

There have not been any material changes in the nature of the Company's business during the year.

Business Review

The movement in the Company's total assets from $21,317 million as at 30 September 2016 to $21,263 million as at 30 September 2017 has been driven primarily by a decreased funding requirement from the Parent Company.

The movement in funding includes:

NZ$m	Debt Issuances	Commercial Paper	Total
Issuances	4,097	8,040	12,137
Maturities	(2,964)	(9,698)	(12,662)
Net issuances	1,133	(1,658)	(525)
Foreign exchange revaluation	476	19	495
Movement	1,609	(1,639)	(30)

Net interest income was $7 million for the year to 30 September 2017 (2016: $6 million).

Principal Risks and Uncertainties

The Company expects minimal change to principal risks and uncertainties over the next year.

The Company's exposure to risk arises from the Company's operations as a financial intermediary and participant in the financial markets. All aspects of risk are managed within a framework of policies, limits, control procedures, systems and reporting, and risk exposures are independently monitored and controlled within predefined limits, with an internal reporting framework in place.

The Company carries minimal interest rate, liquidity and currency risk reflecting the Company's role as a financial intermediary. The Company's principal credit risk exposure continues to be to the Parent Company. Operational risk is managed through a comprehensive infrastructure of effective policies, procedures, businesses systems and compliance.

Other Information

- No important events have occurred since the end of the financial year.
- No significant changes are planned to the future operations of the Company.
- The Company is not involved in research and development.
- The Company has not acquired any of its own shares.
- The Company only operates through its London branch.

Directors

Antonia Watson has taken up the position of Managing Director Retail and Business Banking with the Parent Company and resigned as a Director of the Company on 17 February 2017. Stewart Taylor was appointed as a Director of the Company on 17 February 2017.

There have been no other changes to the Directors of the Company since 30 September 2016.

Responsibility Statement

As at the date on which this Responsibility Statement is signed, after due enquiry and to the best of their knowledge, the Directors confirm that:

(a) the financial statements, prepared in accordance with New Zealand Generally Accepted Accounting Practice and International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

(b) the management report of the Company includes a fair review of the development and performance of the business and the position of the Company and the principal risks and uncertainties that it faces.

For and on behalf of the Board of Directors:

Anthony Bradshaw
Director
15 November 2017

Stewart Taylor
Director
15 November 2017

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Interest income	6	315	281
Interest expense	2	308	275
Profit before income tax		7	6
Income tax expense	3	2	2
Profit after income tax		5	4

There are no items of other comprehensive income.

BALANCE SHEET

	Note	30/09/2017 NZ$m	30/09/2016 NZ$m
Assets			
Due from the Parent Company	6	21,263	21,317
Total assets		21,263	21,317
Liabilities			
Accrued interest payable		36	60
Commercial paper	4	3,719	5,358
Current tax liabilities		1	1
Debt issuances	5	17,502	15,893
Total liabilities		21,258	21,312
Net assets		5	5
Equity			
Retained profits		5	5
Total equity	8	5	5

For and on behalf of the Board of Directors:

Anthony Bradshaw
Director
15 November 2017

Stewart Taylor
Director
15 November 2017

CASH FLOW STATEMENT

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Cash flows from operating activities		
Interest received	339	312
Interest paid	(332)	(306)
Tax paid	(2)	(2)
Net cash flows provided by operating activities	5	4
Cash flows from investing activities		
Decrease / (increase) in due from the Parent Company	525	(4,210)
Net cash flows provided by / (used in) investing activities	525	(4,210)
Cash flows from financing activities		
Proceeds from debt issuances	4,097	6,255
Increase / (decrease) in commercial paper	(1,658)	1,333
Redemption of debt issuances	(2,964)	(3,378)
Dividends paid	(5)	(4)
Net cash flows provided by / (used in) financing activities	(530)	4,206
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	4
Adjustments		
Change in accrued interest receivable	24	31
Change in accrued interest payable	(24)	(31)
Net cash flows provided by operating activities	5	4

STATEMENT OF CHANGES IN EQUITY

	Note	Retained earnings NZ$m	Total equity NZ$m
As at 1 October 2015		5	5
Profit after income tax		4	4
Ordinary dividend paid	8	(4)	(4)
As at 30 September 2016		5	5
Profit after income tax		5	5
Ordinary dividend paid	8	(5)	(5)
As at 30 September 2017		5	5

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

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), The Overseas Companies Regulations 2009 and the Disclosure and Transparency Rules issued by the United Kingdom Financial Conduct Authority (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).

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

There have been no 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).

(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;

NOTES TO THE FINANCIAL STATEMENTS

- 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

Cash and cash equivalents comprise cash at bank.

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. These cash flows are high volume and short term in nature and include commercial paper and related party balances.

(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) Other

(i) Accounting Standards not early adopted

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

NZ IFRS 9 Financial Instruments (effective for periods commencing after 1 January 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.

2. INTEREST EXPENSE

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Commercial paper	51	44
Debt issuances	257	231
Total interest expense	308	275

3. INCOME TAX

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	7	6
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

	30/09/2017 NZ$m	30/09/2016 NZ$m
U.S. commercial paper	3,654	4,516
Euro commercial paper	65	842
Total commercial paper	3,719	5,358

Commercial paper issued is guaranteed by the Parent Company.

5. DEBT ISSUANCES

	30/09/2017 NZ$m	30/09/2016 NZ$m
U.S. medium term notes	9,004	6,883
Euro medium term notes	3,173	2,792
Covered bonds	5,325	6,218
Total debt issuances	17,502	15,893

Debt issuances are guaranteed by the Parent Company. Debt issuances, other than covered bonds, are 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 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.

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.

	Year to 30/09/2017 NZ$000	Year to 30/09/2016 NZ$000
Audit or review of financial statements	38	38
Other services:		
Review of offer documents	130	96
Other assurance services	16	16
Total other services	146	112
Total fees paid to auditors by the Parent Company	184	150

Balances with related parties

Cash at bank comprises short term deposits with the Parent Company.

Amounts due from the Parent Company are lent on similar terms as the underlying funding raised.

NOTES TO THE FINANCIAL STATEMENTS

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.

	30/09/2017			30/09/2016		
	within one year	after more than one year	Total	within one year	after more than one year	Total
	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m
Assets						
Due from Parent Company	6,456	14,807	21,263	8,384	12,933	21,317
Liabilities						
Debt issuances	2,695	14,807	17,502	2,960	12,933	15,893

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 shareholder 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's dividend policy is to distribute all retained profits to the Parent Company.

Ordinary share capital

The Company's share capital consists of 500,000 (2016: 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.

The dividend on ordinary shares was $8.45 per share (2016: $8.61 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

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.

30/09/2017	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
Liabilities						
Commercial paper	3,744	1,118	2,626	-	-	-
Debt issuances	18,534	1,256	1,720	12,422	3,136	-
Total financial liabilities	22,278	2,374	4,346	12,422	3,136	-
30/09/2016						
Liabilities						
Commercial paper	5,376	1,054	4,322	-	-	-
Debt issuance	16,637	1,995	1,204	10,323	3,115	-
Total financial liabilities	22,013	3,049	5,526	10,323	3,115	-

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:

	30/09/2017		30/09/2016	
	Carrying amount NZ$m	Fair value NZ$m	Carrying amount NZ$m	Fair value NZ$m
Financial assets				
Due from the Parent Company	21,263	21,345	21,317	21,548
Financial liabilities				
Commercial paper	3,719	3,721	5,358	5,364
Debt issuances	17,502	17,582	15,893	16,118

KPMG

Independent Auditor's Report

To the shareholder of ANZ New Zealand (Int'l) Limited

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of ANZ New Zealand (Int'l) Limited (the Company) on pages 2 to 8:

i. present fairly in all material respects the Company's financial position as at 30 September 2017 and its financial performance and cash flows for the year ended on that date

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 2017;
- the statement of comprehensive income, changes in equity and cash flow statement for the year then ended
- 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. The firm has no other relationship with, or interest in, the Company.

Other information

The directors, on behalf of the Company, are responsible for the other information included in the Company's Annual Financial Report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

KPMG

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
- 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
- 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
Wellington

15 November 2017

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 December 4, 2018 (the "Offering Memorandum").

PRIIPs REGULATION / 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 (as amended or superseded), 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 "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 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).

[This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC, as amended or superseded, (the "Prospectus Directive"), 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 Prospectus Directive. 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 ANZ Centre, Ground Floor, 23-29 Albert Street, Auckland 1010, New Zealand [and copies may be obtained from ANZ Centre, Ground Floor, 23-29 Albert Street, Auckland 1010, New Zealand].] / [This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC, as amended or superseded, (the "Prospectus Directive"), 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 Prospectus Directive, 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 ANZ Centre, Ground Floor, 23-29 Albert Street, Auckland 1010, New Zealand [and copies may be obtained from ANZ Centre, Ground Floor, 23-29 Albert Street, Auckland 1010, New Zealand].]

[Notification under Section 309B(1) of the Securities and Futures Act of Singapore (the "SFA"): 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, we wish 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:	[ ]% per annum
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 [EURIBOR]
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 EURIBOR] OR [•]
Interest Determination Dates:	[ ]
Index Maturity:	[ ]
LIBOR Notes:	[Applicable/Not Applicable]
Applicable provisions:	[Reuters LIBOR01]
Designated LIBOR Page:	[Reuters LIBOR01]
Index currency:	[ ]
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 UK Listing 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:	[Not Applicable/[ ]]
FISN:	[Not Applicable/[ ]]
	(*If the CFI and/or FISN is not required, requested or available, it/they should be specified to be "Not Applicable"*)
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 [ ]]
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 / EURIBOR /Federal Funds Effective Rate / Other (specify)] is provided by [administrator legal name]][*repeat as necessary*]. [As at the date hereof, [[administrator legal name][appears]/[does not appear]][*repeat as necessary*] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of Regulation (EU) 2016/1011, as amended]/[As far as the Issuer is aware, as at the date hereof, the [*specify benchmark*] does not fall within the scope of Regulation (EU) 2016/1011, as amended] / [Not Applicable]
Reasons for the offer:	[ ]
(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]

ANZ Bank New Zealand Limited
ANZ Centre, Ground Floor, 23-29 Albert Street
Auckland 1010
New Zealand

ANZ New Zealand (Int'l) Limited
ANZ Centre, Ground Floor, 23-29 Albert Street
Auckland 1010
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ANZ Bank New Zealand Limited

ANZ New Zealand (Int'l) Limited