



ANZ New Zealand (Int'l) Limited

(incorporated with limited liability in New Zealand under company number 328154 and with a branch registered in England & Wales under foreign company number FC023994 and branch number BR006645)

as Issuer

ANZ Bank New Zealand Limited

(incorporated with limited liability in New Zealand under company number 35976)

as Issuer and Guarantor of Covered Bonds issued by ANZ New Zealand (Int'l) Limited

€8,000,000,000 ANZNZ Covered Bond Programme

unconditionally and irrevocably guaranteed as to payments of interest and principal by

ANZNZ Covered Bond Trust Limited

(incorporated in New Zealand with limited liability under company number 3220967)

as trustee of the ANZNZ Covered Bond Trust and Covered Bond Guarantor

Pages i to C-25 of this Offering Circular comprise a base prospectus for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive**") in respect of Covered Bonds (as defined below) to be admitted to the Official List of the FCA (as defined below) and admitted to trading on the regulated market of the London Stock Exchange plc (as defined below) (the "**Prospectus**"). The Prospectus comprises a separate base prospectus for each Issuer (as defined below) as further described on pages vii to x.

Pages D-1 to D-58 of this Offering Circular comprise an information memorandum (the "**Information Memorandum**") in respect of Covered Bonds which are not admitted to the Official List of the FCA or any other European Economic Area regulated market or offered to the public in the European Economic Area ("**Non-PD Covered Bonds**"). The Non-PD Covered Bonds shall only be offered pursuant to the Programme Agreement (as defined below), and only to non-U.S. persons in offshore transactions in reliance upon Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"). The Information Memorandum has not been approved or reviewed by the FCA and does not constitute a prospectus for the purposes of the Prospectus Directive.

Under the €8,000,000,000 ANZNZ Covered Bond Programme (the "**Programme**") established by ANZ Bank New Zealand Limited ("**ANZ New Zealand**" or an "**Issuer**") and ANZ New Zealand (Int'l) Limited ("**ANZNIL**" or an "**Issuer**", and together with ANZ New Zealand, the "**Issuers**", and references to the "**Relevant Issuer**" shall, in relation to any Series or Tranche of Covered Bonds be references to the Issuer which is, or is intended to be, the Issuer of such Covered Bonds as indicated in the applicable Final Terms) on the Programme Date, the Issuers may from time to time issue bonds ("**Covered Bonds**") denominated in any currency agreed between the Relevant Issuer, the Guarantor (as defined below) (in the case of Covered Bonds issued by ANZNIL) and the Relevant Dealer(s) (as defined below). The price and amount of the Covered Bonds to be issued under the Programme will be determined by the Relevant Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) and the Relevant Dealer(s) at the time of issue in accordance with the prevailing market conditions. Any Covered Bonds issued under the Programme on or after the date of this Prospectus are issued subject to the provisions as described herein and in any supplement hereto.

The Prospectus has been approved by the United Kingdom Financial Conduct Authority (the "**FCA**"), which is the United Kingdom competent authority for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom, as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of Covered Bonds under the Programme during the period of twelve months after the date hereof. This Prospectus constitutes two base prospectuses for the purposes of Article 5.4 of the Prospectus Directive. Application has been made to the London Stock Exchange plc (the "**London Stock Exchange**") for such Covered Bonds to be admitted to trading on the regulated market of the London Stock Exchange. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2014/65/EU (the "**Markets in Financial Instruments Directive**"). This Prospectus supersedes and replaces in its entirety the Prospectus dated 2 August 2017 (as supplemented) for each of ANZ New Zealand and ANZNIL with regard to their covered bond

programme. Any Covered Bonds issued under the Programme on or after the date of this Prospectus are issued subject to the provisions described herein.

ANZNIL will issue Covered Bonds under the Programme acting through its London branch. ANZNIL issues Covered Bonds under the Programme through its London branch for certain legal, administrative and regulatory reasons, including (without limitation) to facilitate timely access to funding markets. Payments of interest thereunder are subject to applicable tax laws and regulations of the United Kingdom and other jurisdictions – see the section entitled "*Taxation*" on pages 249 to 251 (inclusive). Investors should be aware that a branch is not a subsidiary and does not constitute a separate legal entity. The obligations in respect of Covered Bonds issued by ANZNIL acting through its London branch are of ANZNIL only, and investors' claims under such Covered Bonds are only against ANZNIL. Notwithstanding the preceding sentence, the payment of all amounts owing by ANZNIL in respect of the Covered Bonds issued by ANZNIL will be unconditionally and irrevocably guaranteed by ANZ New Zealand (the "**Guarantor**").

ANZNZ Covered Bond Trust Limited (the "**Covered Bond Guarantor**") has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Housing Loans and the Related Security (as defined below) and its other assets. Recourse against the Covered Bond Guarantor under its guarantee is limited to the Housing Loans and the Related Security and its other assets.

The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €8,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Covered Bonds may be issued on a continuing basis to the Dealers specified under "*Programme Overview*" and any additional Dealer appointed under the Programme from time to time by the Issuers (each, a "**Dealer**" and together, the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the "**Relevant Dealers**" shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Covered Bonds.

Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" on pages 15 to 65 of this Prospectus.

Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under the Terms and Conditions of the Covered Bonds) of Covered Bonds will be set out in a separate document containing the final terms for that Tranche (each, a "**Final Terms**") which, with respect to Covered Bonds 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 issue of such Tranche of Covered Bonds.

Each initial and subsequent purchaser of the Covered Bonds 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 Covered Bonds and may in certain circumstances be required to provide confirmation of compliance with such resale or other transfer restrictions below and as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

The Covered Bonds, the Guarantee and the Covered Bond Guarantee (as defined below) are being offered and sold without registration under 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 Regulation D promulgated thereunder and (B) to non-U.S. persons in offshore transactions in reliance upon Regulation S under the Securities Act. For a description of certain restrictions on resales and transfers, as to which each purchaser of Covered Bonds will be deemed to have acknowledged, represented and agreed, see "*Subscription and Sale and Transfer and Selling Restrictions*".

The Covered Bonds are not protected accounts or deposit liabilities of the Issuers and, except as expressly stated in this Prospectus, 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.

The Covered Bonds will be issued in book-entry form only and will be eligible for clearance through the facilities of The Depository Trust Company ("**DTC**"), Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**").

The Covered Bonds issued under the Programme are expected on issue to be assigned an "Aaa" rating by Moody's Investors Service Pty. Ltd. ("**Moody's**") and an "AAA" rating by Fitch Australia Pty Ltd. ("**Fitch**"). As at 3 August 2018, ANZ New Zealand's short-term senior unsecured debt was assigned an "A-1+" rating by Standard & Poor's (Australia) Pty Ltd ("**S&P**" and, together with Moody's and Fitch, the "**Rating Agencies**"), a "P-1" rating by Moody's and an "F1+" rating by Fitch. As at 3 August 2018, ANZ New Zealand's long-term senior unsecured debt was assigned an "AA-" rating by S&P, an "A1" rating by Moody's and an "AA-" rating by Fitch. S&P, Moody's and Fitch are not established in the European Union and have not applied for registration under Regulation (EC) No. 1060/2009 (as amended by Regulation (EC) No. 513/2011) on credit rating agencies (the "**CRA Regulation**"). However, their credit ratings are endorsed on an ongoing basis by Standard & Poor's Credit Market Services Europe Ltd, Moody's Investors Service Ltd. and Fitch Ratings Ltd., respectively, pursuant to and in accordance with the CRA Regulation. Standard & Poor's Credit Market Services Europe Ltd, Moody's Investors Service Ltd. and Fitch Ratings Ltd. are established in the European Union and are registered under the CRA Regulation. References in this Prospectus to S&P, Moody's and/or Fitch, including in the annexes to this Prospectus, shall be construed accordingly, save for references to S&P, Moody's and/or Fitch in the context of ratings triggers applicable to parties other than ANZ New Zealand which shall be read as referring to the relevant S&P, Moody's and/or Fitch entity (as applicable) at the relevant time.

The ratings of certain Series or Tranches of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to the relevant Covered Bonds will be issued by, or endorsed by, a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the applicable Final Terms. Please also refer to "*Programme Overview – Ratings*" and "*Ratings of the Covered Bonds*" in the Risk Factors section of this Prospectus.

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 European Union 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 European Union and registered under the CRA Regulation, unless the rating is provided by a credit rating agency operating in the European Union before 7 June 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 organisation.

PRIIPs/IMPORTANT – EEA RETAIL INVESTORS - The Covered Bonds 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. 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**"); (ii) a customer within the meaning of Directive 2002/92/EC, as amended ("**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the European Economic Area has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the European Economic Area may be unlawful under the PRIIPs Regulation.

MiFID II Product Governance / target market - The Final Terms in respect of any Covered Bonds 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 Covered Bonds

and which channels for distribution of the Covered Bonds they consider are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (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 Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made by the relevant Dealer(s) in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Covered Bonds is a "manufacturer" in respect of such Covered Bonds, but otherwise neither the Arrangers nor the Dealers 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 an EU Member State. It is therefore not a "manufacturer" for the purposes of the MiFID Product Governance Rules 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 any target market assessment for the Covered Bonds).

Benchmark Regulation: Interest and/or other amounts payable under the Covered Bonds 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 (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.

Arrangers for the Programme

ANZ Bank New Zealand Limited

Barclays

Dealers for the Programme

Australia and New Zealand Banking Group Limited

Barclays

The date of this Offering Circular is 3 August 2018.

THE COVERED BONDS, THE GUARANTEE AND THE COVERED BOND GUARANTEE OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OR APPROVED OR DISAPPROVED BY THE UNITED STATES 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 PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THE COVERED BONDS, THE GUARANTEE AND THE COVERED BOND 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 REGULATION D PROMULGATED THEREUNDER AND TO CERTAIN NON U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT.

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IMPORTANT NOTICES

ANZNIL Base Prospectus

In respect of ANZNIL, the following sections of the Offering Circular will comprise a base prospectus issued in compliance with the Prospectus Directive for the purpose of giving information with regard to the issue of any Covered Bonds issued by ANZNIL which have a denomination of at least EUR 100,000 (or its equivalent in another currency) and which are to be admitted to the Official List of the FCA and admitted to trading on the regulated market of the London Stock Exchange under the Programme during the period of 12 months after the date hereof (the "ANZNIL Base Prospectus"):

- this section entitled "Important Notices" on pages vii to xiii;
- the section entitled "Forward-Looking Statements" on pages 1 to 2;
- the section entitled "Enforcement of Liabilities; Service of Process" on page 3;
- the section entitled "Principal Characteristics of the ANZNZ Covered Bond Programme" on page 4;
- the section entitled "Available Information" on page 5;
- the section entitled "Presentation of Financial Information" on page 6;
- the section entitled "Documents Incorporated by Reference" on page 7;
- the section entitled "Structure Overview" on pages 8 to 14;
- the section entitled "Risk Factors" on pages 15 to 65;
- the section entitled "Programme Overview" on pages 66 to 73;
- the section entitled "ANZ Bank New Zealand Limited" on pages 74 to 78;
- the section entitled "Management" on pages 79 to 82;
- the section entitled "ANZ New Zealand (Int'l) Limited" on page 83;
- the section entitled "ANZ Bank New Zealand Limited's Mortgage Business" on pages 84 to 91;
- the section entitled "Selected Consolidated Financial Information" on pages 92 to 93;
- the section entitled "Form of the Covered Bonds" on pages 94 to 97;
- the section entitled "Form of Final Terms" on pages 98 to 105;
- the section entitled "Terms and Conditions of the Covered Bonds" on pages 106 to 154;
- the section entitled "Use of Proceeds" on page 155;
- the section entitled "Regulation and Supervision" on pages 156 to 176;
- the section entitled "Australia and New Zealand Banking Group Limited" on pages 177 to 180;
- the section entitled "The ANZNZ Covered Bond Trust" on pages 181 to 182;
- the section entitled "Summary of the Principal Documents" on pages 183 to 220;
- the section entitled "Credit Structure" on pages 221 to 223;

- the section entitled "Cashflows" on pages 224 to 235;
- the section entitled "The Housing Loan Portfolio" on page 236;
- the section entitled "Legal Aspects of the Housing Loan Portfolio" on pages 237 to 244;
- the section entitled "Book Entry Clearance Systems" on pages 245 to 248;
- the section entitled "Taxation" on pages 249 to 251;
- the section entitled "Subscription and Sale and Transfer and Selling Restrictions" on pages 252 to 262;
- the section entitled "Legal Matters" on page 263;
- the section entitled "Independent Auditors" on page 263;
- the section entitled "General Information" on pages 264 to 267;
- the section entitled "Glossary" on pages 268 to 297;
- the section entitled "Annex A" on pages A-1 to A-203;
- the section entitled "Annex A-1" on pages A-1-1 to A-1-35;
- the section entitled "Annex B" on pages B-1 to B-6; and
- the section entitled "Annex C" on pages C-1 to C-25.

ANZ New Zealand Base Prospectus

In respect of ANZ New Zealand, the following sections of the Offering Circular will comprise a base prospectus issued in compliance with the Prospectus Directive for the purpose of giving information with regard to the issue of any Covered Bonds issued by ANZ New Zealand which have a denomination of at least EUR 100,000 (or its equivalent in another currency) and which are to be admitted to the Official List of the FCA and admitted to trading on the regulated market of the London Stock Exchange under the Programme during the period of 12 months after the date hereof (the "ANZ New Zealand Base Prospectus"):

- this section entitled "Important Notices" on pages vii to xiii;
- the section entitled "Forward-Looking Statements" on pages 1 to 2;
- the section entitled "Enforcement of Liabilities: Service of Process" on page 3;
- the section entitled "Principal Characteristics of the ANZNZ Covered Bond Programme" on page 4;
- the section entitled "Available Information" on page 5;
- the section entitled "Presentation of Financial Information" on page 6;
- the section entitled "Documents Incorporated by Reference" on page 7;
- the section entitled "Structure Overview" on pages 8 to 14;
- the section entitled "Risk Factors" on pages 15 to 65;
- the section entitled "Programme Overview" on pages 66 to 73;
- the section entitled "ANZ Bank New Zealand Limited" on pages 74 to 78;

- the section entitled "ANZ New Zealand" in the section entitled "Management" on pages 79 to 81;
- the section entitled "ANZ Bank New Zealand Limited's Mortgage Business" on pages 84 to 91;
- the section entitled "Selected Consolidated Financial Information" on pages 92 to 93;
- the section entitled "Form of the Covered Bonds" on pages 94 to 97;
- the section entitled "Form of Final Terms" on pages 98 to 105;
- the section entitled "Terms and Conditions of the Covered Bonds" on pages 106 to 154;
- the section entitled "Use of Proceeds" on page 155;
- the section entitled "Regulation and Supervision" on pages 156 to 176 other than the section entitled "ANZNIL";
- the section entitled "Australia and New Zealand Banking Group Limited" on pages 177 to 180;
- the section entitled "The ANZNZ Covered Bond Trust" on pages 181 to 182;
- the section entitled "Summary of the Principal Documents" on pages 183 to 220;
- the section entitled "Credit Structure" on pages 221 to 223;
- the section entitled "Cashflows" on pages 224 to 235;
- the section entitled "The Housing Loan Portfolio" on page 236;
- the section entitled "Legal Aspects of the Housing Loan Portfolio" on pages 237 to 244;
- the section entitled "Book Entry Clearance Systems" on pages 245 to 248;
- the section entitled "Taxation" on pages 249 to 251;
- the section entitled "Subscription and Sale and Transfer and Selling Restrictions" on pages 252 to 262;
- the section entitled "Legal Matters" on page 263;
- the section entitled "Independent Auditors" on page 263;
- the section entitled "General Information" on pages 264 to 267;
- the section entitled "Glossary" on pages 268 to 297;
- the section entitled "Annex A" on pages A-1 to A-203;
- the section entitled "Annex A-1" on pages A-1-1 to A-1-35;
- the section entitled "Annex B" on pages B-1 to B-6; and
- the section entitled "Annex C" on pages C-1 to C-25.

Each of ANZNIL and the Guarantor accepts responsibility for the information contained in the ANZNIL Base Prospectus and in the Final Terms for each Tranche of Covered Bonds issued by ANZNIL under the Programme and to the best of the knowledge of each of ANZNIL and the Guarantor (which have taken all reasonable care to ensure that such is the case), the information

contained in the ANZNIL Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

ANZ New Zealand accepts responsibility for the information contained in the ANZ New Zealand Base Prospectus and in the Final Terms for each Tranche of Covered Bonds issued by it under the Programme and to the best of the knowledge of ANZ New Zealand (which has taken all reasonable care to ensure that such is the case), the information contained in the ANZ New Zealand Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Covered Bond Guarantor (in its capacity as trustee of the Trust) accepts responsibility for the information contained in the following sections of the ANZNIL Base Prospectus and the ANZ New Zealand Base Prospectus:

- the ANZNZ Covered Bond Trust Financial Statements for the year ended 30 September 2017 (the "**Trust Financial Statements**"), attached to this Prospectus as Annex C;
- "Structure Overview – Credit Structure – Asset Coverage Test"; "Structure Overview – Credit Structure – Amortisation Test"; "Structure Overview – Credit Structure – Pre-Maturity Test"; "Structure Overview – Credit Structure – Reserve Fund"; "Structure Overview – The Programme"; "Structure Overview – Credit Structure – Priorities of Payment";
- "Programme Overview – Covered Bond Guarantor"; "Programme Overview – Extendable obligations under the Covered Bond Guarantee"; "Programme Overview – Cross Default"; "Programme Overview – Status of the Guarantee"; "Programme Overview – Covered Bond Guarantee";
- "Risk Factors – Each series of Covered Bonds is likely to have a different Final Maturity Date and there is a risk that Covered Bonds maturing later will not be paid or will not be paid in full under the Covered Bond Guarantee as cover pool assets are not segregated for different Series of Covered Bonds."; "Risk Factors – Insolvency of Covered Bond Guarantor likely to adversely affect the Covered Bonds"; "Risk factors relating to the Covered Bond Guarantor, including the ability of the Covered Bond Guarantor to fulfil its obligations in relation to the Covered Bond Guarantee";
- "The ANZNZ Covered Bond Trust";
- "Summary of the Principal Documents – The Guarantee and the Covered Bond Guarantee – The Covered Bond Guarantee"; "Summary of the Principal Documents – Establishment Deed";
- "Credit Structure – Covered Bond Guarantee"; "Credit Structure – Pre-Maturity Test"; "Credit Structure – Asset Coverage Test"; "Credit Structure – Amortisation Test";
- the third paragraph in "General Information – Significant or Material Change"; and
- the second paragraph in "General Information – Litigation",

(together, the "**Guarantor Information**"). To the best of the knowledge of the Covered Bond Guarantor (who has taken all reasonable care to ensure that such is the case), the sections specified above are in accordance with the facts and do not omit anything likely to affect the import of such information.

The Trust Manager accepts responsibility for the information contained in "*The ANZNZ Covered Bond Trust – Trust Manager*"; "*The ANZNZ Covered Bond Trust – Directors*"; "*The ANZNZ Covered Bond Trust – Delegation by the Trust Manager*" (together the "**Trust Manager Information**"). To the best of the knowledge of the Trust Manager (who has taken all reasonable care to ensure that such is the case), the Trust Manager Information is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*" below). This Prospectus shall, save as specified herein, be read and construed on the basis that such documents are so incorporated and form part of this Prospectus.

The information contained in this Prospectus was obtained from the Issuers, the Guarantor and the Covered Bond Guarantor, but no assurance can be given by the Arrangers, the Dealers, the Agents, the Bond Trustee, the Trust Manager (other than in respect of the Trust Manager Information) or the Security Trustee as to the accuracy or completeness of this information. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arrangers, the Dealers, the Agents, the Bond Trustee, the Trust Manager (other than in respect of the Trust Manager Information) or the Security Trustee as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuers, the Guarantor or the Covered Bond Guarantor in connection with the Programme. Neither the Arrangers nor the Dealers nor the Agents nor the Bond Trustee nor the Trust Manager (other than in respect of the Trust Manager Information) nor the Security Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuers, the Guarantor or the Covered Bond Guarantor in connection with the Programme.

No person has been authorised by the Issuers, the Guarantor, the Covered Bond Guarantor, any of the Arrangers, the Dealers, the Agents, the Bond Trustee, the Trust Manager or the Security Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuers, the Guarantor, the Covered Bond Guarantor, any of the Arrangers, the Dealers, the Agents, the Bond Trustee, the Trust Manager or the Security Trustee.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Covered Bonds (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuers, the Guarantor, the Covered Bond Guarantor, the Seller, any of the Arrangers, the Dealers, the Agents, the Bond Trustee, the Trust Manager or the Security Trustee that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Covered Bonds should purchase any Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuers, the Guarantor and/or the Covered Bond Guarantor. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Issuers, the Guarantor, the Covered Bond Guarantor, the Seller, any of the Arrangers, the Dealers, the Agents, the Bond Trustee, the Trust Manager or the Security Trustee to any person to subscribe for or to purchase any Covered Bonds.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuers and/or the Guarantor and/or the Covered Bond Guarantor and/or the Seller and/or the Trust Manager is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arrangers, the Dealers, the Bond Trustee, the Trust Manager and the Security Trustee expressly do not undertake to review the financial condition or affairs of the Issuers, the Guarantor, the Covered Bond Guarantor or the Seller during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention.

Notwithstanding anything to the contrary contained herein, each prospective investor (and each employee, representative or other agent of each prospective investor) may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and U.S. federal income tax structure (as such terms are used in Sections 6011, 6111 and 6112 of the Code and the Treasury Regulations promulgated thereunder) of the offering of the Covered Bonds and all materials of any kind (including opinions or other tax analyses) that are provided relating to such tax treatment and tax structure.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuers, the Guarantor, the Covered Bond Guarantor, the Arrangers, the Dealers, the Bond Trustee, the Trust Manager and the Security Trustee do not represent that this Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Guarantor, the Covered Bond Guarantor, the Arrangers, the Dealers, the Bond Trustee, the Trust Manager or the Security Trustee which would permit a public offering of any Covered Bonds outside the European Economic Area or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Covered Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Covered Bonds in New Zealand, Australia, the United States, the European Economic Area (including the United Kingdom and France), Hong Kong, Singapore and Japan (see "*Subscription and Sale and Transfer and Selling Restrictions*").

This Prospectus has been prepared on the basis that any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person making or intending to make an offer in a Relevant Member State of Covered Bonds which are the subject of an offering contemplated in this Prospectus as completed by a Final Terms or a drawdown prospectus (a "**Drawdown Prospectus**") in relation to the offer of those Covered Bonds may only do so in circumstances in which no obligation arises for the Issuers or the Relevant Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuers, the Guarantor, the Covered Bond Guarantor, the Trust Manager nor the Dealers have authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuers, the Guarantor, the Covered Bond Guarantor, the Trust Manager or the Dealers to publish or supplement a prospectus for such offer. Any reference in this Prospectus to Final Terms shall be construed as a reference to the relevant Final Terms or Drawdown Prospectus, as applicable.

This Prospectus prepared in connection with the Covered Bonds has not been submitted to the clearance procedures of the Autorité des marchés financiers.

All references to "**U.S. dollars**" and "**US\$**" are to the lawful currency of the United States of America, to "**NZ\$**", "**New Zealand \$**", "**NZ dollars**", "**New Zealand dollars**", "**\$**" and "**New Zealand cents**" are to the lawful currency of New Zealand, to "**A\$**" and "**Australian dollars**" are to the lawful currency of Australia, to "**Sterling**" and "**£**" are to the lawful currency of the United Kingdom and to "**Euro**" and "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

None of the Arrangers, the Dealers, the Covered Bond Guarantor, the Agents, the Security Trustee, the Trust Manager or the Bond Trustee makes any representation to any investor in the Covered Bonds regarding the legality of its investment under any applicable laws. Any investor in the Covered Bonds should be able to bear the economic risk of an investment in the Covered Bonds for an indefinite period of time during the life of such Covered Bonds.

Each potential investor in the Covered Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact the Covered Bonds will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Covered Bonds; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Covered Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Covered Bonds unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Covered Bonds will perform under changing conditions, the resulting effects on the value of the Covered Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) Covered Bonds are legal investments for it, (b) Covered Bonds can be used as collateral for various types of borrowing, (c) Covered Bonds can be used as repo-eligible securities and (d) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Prospectus (and, therefore, acting in association with the Issuers and the Guarantor) in connection with an offer of Covered Bonds are the persons named in the applicable Final Terms as the Relevant Dealer.

Copies of the Final Terms will be available from the registered office of the Relevant Issuer, the Guarantor (if ANZNIL is the Issuer) and the specified office set out below of the Principal Paying Agent (as defined below).

FORWARD-LOOKING STATEMENTS

This Prospectus 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 Prospectus, 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 Prospectus 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 the ANZ New Zealand Group or its customers operate, in particular, Australia, Asia, Europe and the United States, including, without limitation, changes that impact the real estate industries;
- the impact on the ANZ New Zealand Group and its customers of potential changes announced by the new coalition government of New Zealand following New Zealand's elections in September 2017;
- demographic changes and changes in political, social, and economic conditions in New Zealand and any of the jurisdictions in which the ANZ New Zealand Group, its customers or its 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 the ANZ New Zealand Group or its customers may experience as a result;
- changes in consumer spending, saving and borrowing habits in New Zealand and external markets in which the ANZ New Zealand Group, its 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 the ANZ New Zealand Group, its customers or its counterparties operate;
- the competitive environment and impacts of changing consumer preferences for accessing and using the services provided by the ANZ New Zealand Group;
- the ANZ New Zealand Group's ability to maintain or increase market share and control expenses;
- the ANZ New Zealand Group's timely development of new products and services and the acceptance and perceived overall value of these products and services by users;
- 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 the ANZ New Zealand Group of legal, regulatory, administrative and other current or future proceedings, including the risk of fines or sanctions, arising out of its 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 that the ANZ New Zealand Group is subject to;
- changes to the ANZ New Zealand Group's credit ratings;
- risks associated with the information systems that the ANZ New Zealand Group maintain;
- the reliability and security of the ANZ New Zealand Group's technology and its ability to protect its information from security risks, including potential cyber-attacks;
- operational and environmental factors, including natural disasters such as earthquakes, floods, cyclones, volcanic eruptions, bush fires and tsunamis;
- the ANZ New Zealand Group's 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 the ANZ New Zealand Group's counterparty exposures;
- the effectiveness of the ANZ New Zealand Group's risk management policies including with respect to its internal processes, systems, organisational management and employees;
- an adverse change to the ANZ New Zealand Group's reputation;
- inappropriate conduct of the ANZ New Zealand Group's staff;
- changes to the ANZ New Zealand Group's 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 the ANZ New Zealand Group's accounting policies and their application;
- the impact of existing or potential litigation and regulatory actions applicable to the ANZ New Zealand Group, its business or its customers;
- loss of key executives, employees or members of the ANZ New Zealand Group's board of directors;
- other risks and uncertainties detailed under "Regulation and Supervision", "Overview—Competition", "Risk Factors" and elsewhere herein; and
- various other factors beyond ANZ New Zealand's control.

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

ENFORCEMENT OF LIABILITIES; SERVICE OF PROCESS

ANZ New Zealand, ANZNIL and the Covered Bond Guarantor 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, ANZNIL and the Covered Bond Guarantor 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 Covered Bond Guarantor, 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 United States investors to effect service of process within the United States upon ANZ New Zealand, ANZNIL, the Covered Bond Guarantor or any of those persons or to enforce against ANZ New Zealand, ANZNIL, the Covered Bond Guarantor or any of those persons, outside of the United States, judgments obtained in the United States courts predicated upon the civil liability provisions of the United States federal or state securities laws. There is doubt as to the enforceability in New Zealand of original actions or actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

PRINCIPAL CHARACTERISTICS OF THE ANZNZ COVERED BOND PROGRAMME

The following synopsis does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus. For further information, namely regarding the Asset Coverage Test and the Amortisation Test, please see "Summary of Principal Documents".

Issuers:	ANZ Bank New Zealand Limited (" ANZ New Zealand ") and ANZ New Zealand (Int'l) Limited (" ANZNIL ").
Guarantor (or ANZ New Zealand):	ANZ New Zealand (in the case of Covered Bonds issued by ANZNIL).
Covered Bond Guarantor:	ANZNZ Covered Bond Trust Limited.
Nature of eligible property:	Housing Loans and the Related Security, Substitution Assets, and Authorised Investments.
Location of eligible property:	New Zealand.
Asset Coverage Test:	Yes, see " <i>Credit Structure</i> ".
Amortisation Test:	Yes, see " <i>Credit Structure</i> ".
Pre-Maturity Test:	Yes, see " <i>Credit Structure</i> ".
Reserve Fund:	A Reserve Fund to trap a specified amount of Available Revenue Receipts or the proceeds of a Term Advance will be established if and for as long as the credit ratings for ANZ New Zealand's short-term, unsecured, unsubordinated and unguaranteed debt obligations fall below F1+ by Fitch or P-1 by Moody's.
Maximum Asset Percentage:	90%.
Extendable Maturities:	Available
Hard Bullet Maturities:	Available.
Asset Monitor:	KPMG.
Asset Segregation:	Yes.
Terms:	As set out in the Final Terms for the relevant Series or Tranche of Covered Bonds.
Clearing Systems:	Covered Bonds may be traded on the settlement system operated by DTC, the settlement system operated by Euroclear, the settlement system operated by Clearstream, Luxembourg and/or any other clearing system specified in the applicable Final Terms.
Listing:	Application will be made to the UK Listing Authority for Covered Bonds issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Covered Bonds to be admitted to trading on the regulated market of the London Stock Exchange during the period of 12 months from the date of this Prospectus.

AVAILABLE INFORMATION

Each prospective purchaser of the Covered Bonds 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 year ended 30 September 2017 ("**Full Year Disclosure Statement**") and the year ended 30 September 2016 ("**Comparative Disclosure Statement**"), which together contain the audited consolidated financial statements of the ANZ New Zealand Group for the years ended 30 September 2017, 2016 and 2015 ("**ANZ New Zealand Audited Consolidated Financial Statements**"), and the Disclosure Statement of the ANZ New Zealand Group for the six months ended 31 March 2018 ("**Half Year Disclosure Statement**", and together with the Full Year Disclosure Statement and the Comparative Disclosure Statement, the "**Disclosure Statements**"), which contains the unaudited financial statements of the ANZ New Zealand Group for the six months ended 31 March 2018 ("**ANZ New Zealand Unaudited Consolidated Financial Statements**"), and together with the ANZ New Zealand Audited Consolidated Financial Statements, "**ANZ New Zealand Financial Statements**") are attached to this Prospectus as Annex A. Information in the Comparative Disclosure Statement is superseded by information contained in the Full Year Disclosure Statement and the Half Year Disclosure Statement. Information in the Full Year Disclosure Statement is superseded by information in the Half Year Disclosure Statement. Information in each of the Disclosure Statements is superseded by information contained in this Prospectus. In each of the foregoing cases, prior information is superseded only to the extent there are any inconsistencies.

The audited financial statements of ANZNIL for the years ended 30 September 2017 and 2016 ("**ANZNIL Audited Financial Statements**") and the unaudited financial statements of ANZNIL for the six months ended 31 March 2018 ("**ANZNIL Unaudited Financial Statements**", and together with the ANZNIL Audited Financial Statements, "**ANZNIL Financial Statements**") are attached to this Prospectus as Annex A-1.

A Pool Summary Report dated 18 July 2018 containing certain statistical information in respect of the cover pool is attached to this Prospectus as Annex B.

The Trust Financial Statements, containing the audited financial statements of the ANZNZ Covered Bond Trust for the years ended 30 September 2017 and 30 September 2016, are attached to this Prospectus as Annex C.

While any Covered Bonds 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 ("Exchange Act"), or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any QIB who holds any Covered Bond and any prospective purchaser of a Covered Bond who is a QIB designated by the holder of such Covered Bond, 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 Financial Services and Markets Act 2000, as amended ("**FSMA**"), the Issuers will prepare and make available an appropriate amendment or supplement to this Prospectus or a supplementary prospectus which, in respect of any subsequent issue of Covered Bonds to be admitted to the Official List of the FCA, will constitute a supplementary prospectus as required by the FCA and Section 87G of the FSMA.

Please note that any websites and URLs referred to herein do not form part of this Prospectus.

PRESENTATION OF FINANCIAL INFORMATION

Financial Statements

The ANZ New Zealand 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 Consolidated 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**").

Unless the context otherwise requires, references herein to "2017", when used in connection with a discussion of the ANZ New Zealand Consolidated Financial Statements, means the fiscal year of the ANZ New Zealand Group ended 30 September 2017 and to "six months ended 31 March 2018" means the fiscal six months of the ANZ New Zealand Group ended 31 March 2018. Prior and subsequent fiscal years and periods are referred to in a corresponding manner.

The ANZ New Zealand Audited Consolidated Financial Statements and the ANZNIL Audited Financial Statements for the 2017, 2016 and 2015 years are subject to auditing and auditor independence standards applicable in New Zealand, which differ from those applicable in the United States.

The ANZ New Zealand Unaudited Consolidated Financial Statements and the ANZNIL Unaudited Financial Statements for the six months ended 31 March 2018 are subject to review and auditor independence standards applicable in New Zealand, which differ from those applicable in the United States.

The ANZNZ Covered Bond Trust Financial Statements for the years ended 30 September 2017 and 30 September 2016, which are attached to this Prospectus as Annex C, have been prepared in accordance with NZ GAAP. They comply with NZ IFRS and other applicable Financial Reporting Standards, as appropriate to profit-oriented entities. The Trust Financial Statements comply with IFRS.

Exchange rates and rounding

For the convenience of the reader, this Prospectus 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.

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

DOCUMENTS INCORPORATED BY REFERENCE

The Terms and Conditions of the Covered Bonds contained in the prospectus dated 2 August 2017 (the "**August 2017 Prospectus**"), on pages 96 to 142 (inclusive) and in the prospectus dated 30 June 2016 (the "**June 2016 Prospectus**"), on pages 90 to 135 (inclusive), prepared by the Issuers in connection with the Programme, shall be deemed to be incorporated by reference into, and form part of, this Prospectus. Any other information in the August 2017 Prospectus or the June 2016 Prospectus is either not relevant for investors or is covered elsewhere in this Prospectus.

The August 2017 Prospectus and the June 2016 Prospectus can be obtained during usual business hours on any day (Saturdays, Sundays and public holidays excepted), for inspection at the offices of the Principal Paying Agent or the registered offices of ANZ New Zealand and ANZNIL. Requests should be directed to the Relevant Issuer, the Guarantor or the Principal Paying Agent at their respective offices set out at the end of this Prospectus.

In addition, the August 2017 Prospectus and the June 2016 Prospectus are also available on the website of the FCA's National Storage Mechanism at the link:

<http://www.morningstar.co.uk/uk/NSM>

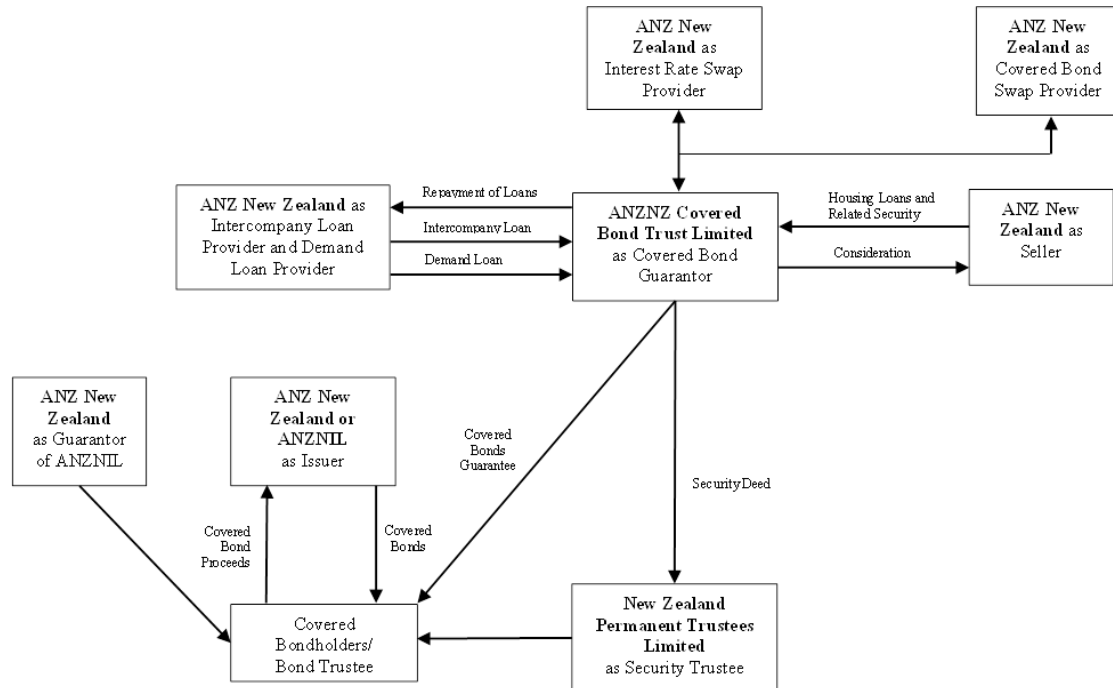
Following the publication of this Prospectus, a supplement may be prepared by the Issuers and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

To the extent that any document incorporated by reference in this Prospectus incorporates further information by reference, such further information does not form part of this Prospectus.

STRUCTURE OVERVIEW

The information in this section is an overview of the structure relating to the Programme and does not purport to be complete. The information is taken from, and is qualified in its entirety by, the remainder of this Prospectus. Words and expressions defined elsewhere in this Prospectus shall have the same meanings in this summary. A glossary of certain defined terms used in this document is contained at the end of this Prospectus.

Structure Diagram



Credit Structure

The Covered Bonds will be direct, unsecured and unconditional obligations of the Relevant Issuer (and the Guarantor if ANZNIL is the Issuer). The Covered Bond Guarantor has no obligation to pay the Guaranteed Amounts under the Covered Bond Guarantee until the occurrence of (i) an Issuer Event of Default and service by the Bond Trustee on the Relevant Issuer and, as applicable, the Guarantor (if ANZNIL is the Issuer) of an Issuer Acceleration Notice and on the Covered Bond Guarantor of a Notice to Pay or, (ii) if earlier, following the occurrence of a Covered Bond Guarantor Event of Default and service by the Bond Trustee on the Covered Bond Guarantor, the Issuers and the Guarantor of a Covered Bond Guarantee Acceleration Notice. Neither the Issuers nor the Guarantor will be relying on any payments by the Covered Bond Guarantor in order to pay interest or repay principal under the Covered Bonds or amounts under the Guarantee (in the case of Covered Bonds issued by ANZNIL).

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate payments to Covered Bondholders, as follows:

- the Covered Bond Guarantee provides credit support to the Relevant Issuer and the Guarantor (if ANZNIL is the Issuer);
- the Pre-Maturity Test is intended to provide liquidity to the Covered Bond Guarantor in relation to amounts of principal due on the Final Maturity Date of the Hard Bullet Covered Bonds;
- the Asset Coverage Test is intended to test, prior to the service of a Notice to Pay on the Covered Bond Guarantor, the asset coverage of the Covered Bond Guarantor's assets in respect of the Covered Bonds on a monthly basis;

- the Amortisation Test is intended to test the asset coverage of the Covered Bond Guarantor's assets in respect of the Covered Bonds following the service of a Notice to Pay on the Covered Bond Guarantor;
- a Reserve Fund will be established in the GIC Account to trap Available Revenue Receipts or to credit the proceeds of a Term Advance if the credit ratings for ANZ New Zealand's short-term, unsecured, unsubordinated and unguaranteed debt obligations fall to F1 (or lower) by Fitch or P-2 (or lower) by Moody's; and
- under the terms of the Account Bank Agreement, the Account Bank has agreed to pay a rate of interest per annum equal to the 30-day Bank Bill Rate (which shall be at the rate determined by the Account Bank on the first day of each Collection Period) on all amounts held by the Covered Bond Guarantor in the GIC Account.

Certain of these factors are considered more fully in the remainder of this section and in the section entitled "*Credit Structure*".

Asset Coverage Test

To protect the value of the Housing Loan Portfolio, the Establishment Deed provides that, prior to the service of a Notice to Pay on the Covered Bond Guarantor, the assets of the Covered Bond Guarantor are subject to the Asset Coverage Test. Accordingly, for so long as Covered Bonds remain outstanding, the Covered Bond Guarantor must ensure that on each Determination Date, the Adjusted Aggregate Housing Loan Amount will be in an amount equal to or in excess of the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the Determination Date. The Asset Coverage Test will be tested by the Calculation Manager on each Determination Date.

If the Adjusted Aggregate Housing Loan Amount is less than the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds on a Determination Date and also on the next following Determination Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the Covered Bond Guarantor (subject to the Bond Trustee having actual knowledge or express notice of the breach). The Bond Trustee shall be deemed to revoke an Asset Coverage Test Breach Notice if, on the next Determination Date to occur following the service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is subsequently satisfied and neither a Notice to Pay nor a Covered Bond Guarantee Acceleration Notice has been served. If the Asset Coverage Test Breach Notice is not revoked on the next Determination Date after service of such Asset Coverage Test Breach Notice an Issuer Event of Default will occur and the Bond Trustee shall be entitled, and in certain circumstances required, to serve an Issuer Acceleration Notice. Following service of an Issuer Acceleration Notice, the Bond Trustee will be required to serve a Notice to Pay on the Covered Bond Guarantor.

Amortisation Test

In addition, on each Determination Date following service of a Notice to Pay on the Covered Bond Guarantor (but prior to the enforcement of the Security in accordance with the Security Deed) and, for so long as Covered Bonds remain outstanding, the Covered Bond Guarantor must ensure that the Amortisation Test Aggregate Housing Loan Amount, as calculated on such Determination Date, will be in an amount at least equal to the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds on such Determination Date. A breach of the Amortisation Test will constitute a Covered Bond Guarantor Event of Default and the Bond Trustee shall be entitled (and, in certain circumstances, may be required) to serve a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor, the Issuers and the Guarantor declaring the Covered Bonds immediately due and repayable and the Security Trustee shall be entitled and, in certain circumstances, may be required, to enforce the Security.

Pre-Maturity Test

Each Series of Hard Bullet Covered Bonds is subject to a Pre-Maturity Test on each Local Business Day during the Pre-Maturity Test Period prior to the occurrence of an Issuer Event of Default and/or a Covered Bond Guarantor Event of Default. The Pre-Maturity Test is intended to provide liquidity for such Covered Bonds when the Guarantor's short-term credit ratings fall to a certain level within a

specified period prior to the maturity of such Covered Bonds. If the Pre-Maturity Test is breached within such specified period and certain actions are not taken, an Issuer Event of Default will occur (see "*Summary of the Principal Documents – Establishment Deed—Sale of Selected Housing Loans and Related Security if the Pre-Maturity Test is Breached*").

Reserve Fund

If ANZ New Zealand's short-term, unsecured, unsubordinated and unguaranteed debt obligations are not rated at least P-1 by Moody's and F1+ by Fitch the Covered Bond Guarantor is required to credit, on the next Trust Payment Date, to the Reserve Fund within the GIC Account the proceeds of Available Revenue Receipts or a Term Advance up to an amount equal to: (a) the higher of the NZ dollar Equivalent of the interest (i) that will accrue on each Series of Covered Bonds from (and including) that date to (but excluding) the date falling three months after such date and (ii) due for payment on each Series of Covered Bonds from (and including) that date to (but excluding) the date falling three months after such date, together with (b) an amount equal to one-quarter of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (a) to (c) of the Pre-Acceleration Revenue Priority of Payments.

The Programme

Pursuant to the terms of the Programme, the Relevant Issuer will issue Covered Bonds to the Covered Bondholders on the Issue Date. The Covered Bonds will be direct, unsecured, unsubordinated and unconditional obligations of the Relevant Issuer and those Covered Bonds issued by ANZNIL will be guaranteed by the Guarantor under the Guarantee.

If ANZNIL is the Issuer, ANZNIL will on-lend the proceeds it receives under the Covered Bonds to ANZ New Zealand.

The Reserve Bank of New Zealand (Covered Bonds) Amendment Act 2013 ("**Amendment Act**") came into force on 10 December 2013 and provides that on and from 10 September 2014 covered bonds may only be issued under registered covered bond programmes. ANZ New Zealand made an application to the RBNZ for the registration of the Programme on 3 June 2014 and the Programme was registered on 8 August 2014.

Intercompany Loan Agreement

Pursuant to the terms of the Intercompany Loan Agreement, ANZ New Zealand as Intercompany Loan Provider will make a Term Advance to the Covered Bond Guarantor in an amount equal to either (i) if a Non-Forward Starting Covered Bond Swap is entered into on the relevant Issue Date, the Principal Amount Outstanding on the Issue Date of the related Series or, as applicable, Tranche of Covered Bonds in the Specified Currency of the related Series or Tranche of Covered Bonds or (ii) if a Forward Starting Covered Bond Swap is entered into on the relevant Issue Date, the NZ dollar Equivalent of the Principal Amount Outstanding on the Issue Date of the related Series or, as applicable, Tranche of Covered Bonds, and for a matching term. Payments by the Relevant Issuer or the Guarantor (in the case of Covered Bonds issued by ANZNIL) of amounts due under the Covered Bonds will not be conditional upon receipt by ANZ New Zealand of payments from the Covered Bond Guarantor pursuant to the Intercompany Loan Agreement. Amounts owed by the Covered Bond Guarantor under the Intercompany Loan Agreement will be subordinated to amounts owed by the Covered Bond Guarantor under the Covered Bond Guarantee in accordance with the applicable Priority of Payments.

The Covered Bond Guarantor will use the proceeds of the Term Advances received under the Intercompany Loan Agreement from time to time (if not denominated in NZ dollars, upon exchange into NZ dollars under the applicable Non-Forward Starting Covered Bond Swap): (i) to fund (in whole or part) the Purchase Price of a New Housing Loan Portfolio (consisting of Housing Loans and the Related Security originated by the Seller) from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or (ii) acting on the directions of the Trust Manager, to invest in Substitution Assets in an amount not exceeding the prescribed limit (as specified in the Establishment Deed) to the extent required to meet the Asset Coverage Test; and thereafter or otherwise the Covered Bond Guarantor may use such proceeds (subject to complying with the Asset Coverage Test (as described below)): (A) if an existing Series or Tranche or part of an existing Series or Tranche of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds to which the Term

Advance relates) to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced (after exchange into the currency of the Term Advance(s) being repaid, if necessary); and/or (B) to make a repayment of the Demand Loan, provided that the Calculation Manager has determined the outstanding balance of the Demand Loan by calculating the Asset Coverage Test as at the Intercompany Loan Drawdown Date having taken into account such repayment and the Calculation Manager has confirmed that the Asset Coverage Test will continue to be met after giving effect to such repayment; and/or (C) to make a deposit of all or part of the proceeds into the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit).

Demand Loan Agreement

Pursuant to the Demand Loan Agreement, ANZ New Zealand as Demand Loan Provider will make a Demand Loan Facility available to the Covered Bond Guarantor. The Covered Bond Guarantor may draw Demand Loan Advances denominated in NZ dollars from time to time under the Demand Loan Facility. The Demand Loan Facility is a revolving credit facility. Demand Loan Advances may only be used by the Covered Bond Guarantor: (i) as consideration (in whole or in part) for the acquisition of Housing Loans and the Related Security from the Seller on a Transfer Date; (ii) to repay a Term Advance on the date on which the Series of Covered Bonds corresponding to such Term Advance matures; (iii) to rectify a failure to meet the Asset Coverage Test; (iv) to rectify a breach of the Pre-Maturity Test; (v) to rectify an Interest Rate Shortfall; or (vi) to pay to the Seller the Purchase Price of a Further Advance or to reimburse the Seller for funding a Cash Redraw (if on any Trust Payment Date the Available Principal Receipts (if any) are not sufficient to pay to the Seller the Purchase Price of a Further Advance or to reimburse the Seller for funding a Cash Redraw that the Covered Bond Guarantor has agreed may remain in the Housing Loan Portfolio in accordance with the Mortgage Sale Agreement). Each Demand Loan Advance will be consolidated to form the Demand Loan. Amounts owed by the Covered Bond Guarantor under the Demand Loan Agreement will be subordinated to amounts owed by the Covered Bond Guarantor under the Covered Bond Guarantee and the Intercompany Loan Agreement in accordance with the applicable Priority of Payments.

Mortgage Sale Agreement

Under the terms of the Mortgage Sale Agreement, the consideration payable to the Seller for the sale of Housing Loans and the Related Security originated by the Seller to the Covered Bond Guarantor on any Transfer Date will be a cash payment paid by the Covered Bond Guarantor to the Seller on the applicable Transfer Date (except to the extent that the Seller and the Covered Bond Guarantor have agreed that the purchase price may be set-off against an amount payable by ANZ New Zealand as Intercompany Loan Provider or Demand Loan Provider to the Covered Bond Guarantor) plus the payment of Deferred Consideration by or on behalf of the Covered Bond Guarantor to the Seller on each Trust Payment Date in accordance with the applicable Priority of Payments.

The Seller will, subject to the satisfaction of certain conditions, be permitted to sell Housing Loans and the Related Security to the Covered Bond Guarantor from time to time.

Servicing Agreement

In its capacity as Servicer, ANZ New Zealand has entered into the Servicing Agreement with the Covered Bond Guarantor and the Security Trustee, pursuant to which the Servicer has agreed to administer and service the Housing Loans and the Related Security sold by ANZ New Zealand (in its capacity as Seller) to the Covered Bond Guarantor.

Covered Bond Guarantee

Pursuant to the terms of the Bond Trust Deed, the Covered Bond Guarantor has guaranteed payments of interest and principal under the Covered Bonds issued by the Issuers. The Covered Bond Guarantor has agreed to pay an amount equal to the Guaranteed Amounts when the same shall become Due for Payment but which would otherwise be unpaid by the Relevant Issuer and/or the Guarantor (in the case of Covered Bonds issued by ANZNIL). The obligations of the Covered Bond Guarantor under the Covered Bond Guarantee constitute (following service of a Notice to Pay or a Covered Bond Guarantee Acceleration Notice) direct, unconditional and unsubordinated obligations of the Covered Bond Guarantor, secured as provided in the Security Deed. The Bond Trustee will be required to serve a Notice to Pay on the Covered Bond Guarantor following the occurrence of an Issuer Event of Default

and service of an Issuer Acceleration Notice (whereupon the Covered Bonds will become immediately due and payable as against the Relevant Issuer (and the Guarantor if ANZNIL is the Issuer) but not at such time as against the Covered Bond Guarantor).

A Covered Bond Guarantee Acceleration Notice may be served by the Bond Trustee on the Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) and the Covered Bond Guarantor following the occurrence of a Covered Bond Guarantor Event of Default. If a Covered Bond Guarantee Acceleration Notice is served, the Covered Bonds will become immediately due and payable (if they have not already become due and payable) and the obligations of the Covered Bond Guarantor under the Covered Bond Guarantee will be accelerated and the Security Trustee will be entitled to enforce the Security. Payments made by the Covered Bond Guarantor under the Covered Bond Guarantee will at such time be made subject to, and in accordance with, the Guarantee Priority of Payments. Payments made by the Security Trustee will at such time be made subject to, and in accordance with, the Post-Enforcement Priority of Payments.

Dual recourse: Excess Proceeds to be paid to Covered Bond Guarantor

Following the occurrence of an Issuer Event of Default, the Bond Trustee may serve an Issuer Acceleration Notice on the Relevant Issuer and the Guarantor (in the case of Covered Bonds issued by ANZNIL) and a Notice to Pay on the Covered Bond Guarantor.

Following service of an Issuer Acceleration Notice and a Notice to Pay, any moneys received by the Bond Trustee from the Relevant Issuer or the Guarantor (in the case of Covered Bonds issued by ANZNIL) (or any administrator, receiver, receiver and manager, liquidator, statutory manager or other similar official appointed in relation to the Issuer or the Guarantor) ("**Excess Proceeds**") will be paid by the Bond Trustee to the Covered Bond Guarantor and shall be used by the Covered Bond Guarantor in the same manner as all other moneys available to it from time to time.

Following service of a Notice to Pay on the Covered Bond Guarantor, the Covered Bond Guarantor will, subject to the terms of the Bond Trust Deed, pay or procure to be paid on each Scheduled Payment Date to or to the order of the Bond Trustee (for the benefit of the Covered Bondholders) an amount equal to those Guaranteed Amounts which shall have become Due for Payment, but which have not been paid by the Relevant Issuer or the Guarantor (in the case of Covered Bonds issued by ANZNIL).

Payments by the Covered Bond Guarantor under the Covered Bond Guarantee will be made in accordance with the Guarantee Priority of Payments.

Security Deed

To secure its obligations under the Covered Bond Guarantee and the Programme Documents to which it is a party, the Covered Bond Guarantor has granted security over the Charged Property (which consists of the Covered Bond Guarantor's interest in the Housing Loans, the Related Security, the Substitution Assets, the Authorised Investments, the Programme Documents to which it is a party and the Trust Accounts) in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the Security Deed.

Priorities of Payment

Pre-Acceleration Revenue Priority of Payments and Pre-Acceleration Principal Priority of Payments

Prior to service of a Notice to Pay and/or service of a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor and/or the realisation of the Security and/or the commencement of winding up proceedings against the Trust, the Covered Bond Guarantor will, on each Trust Payment Date:

- apply Available Revenue Receipts (A) to pay interest due and payable on the Term Advances and/or (B) to pay interest due and payable on the Demand Loan. However, these payments will only be made after payment of certain items ranking higher in the Pre-Acceleration Revenue Priority of Payments (including, but not limited to, certain expenses and amounts due to the Swap Providers, and amounts (if any) to be credited to the Reserve Fund); and

- apply Available Principal Receipts towards making repayments of the principal outstanding on the Demand Loan but only after payment of certain items ranking higher in the Pre-Acceleration Principal Priority of Payments (including, but not limited to, funding any liquidity that may be required in respect of Hard Bullet Covered Bonds following any breach of the Pre-Maturity Test and acquiring New Housing Loans and the Related Security offered by the Seller to the Covered Bond Guarantor).

Application of moneys following service of an Asset Coverage Test Breach Notice

At any time after service on the Covered Bond Guarantor of an Asset Coverage Test Breach Notice (which has not been revoked), but prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of a Covered Bond Guarantor Event of Default and service of a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor, the Issuers and the Guarantor and/or the commencement of winding up proceedings against the Trust and/or realisation of the Security:

- all Available Revenue Receipts will continue to be applied in accordance with the Pre-Acceleration Revenue Priority of Payments save that, whilst any Covered Bonds remain outstanding, no moneys will be applied: (i) to repay any amounts due or to become due and payable to the Intercompany Loan Provider in respect of each Term Advance; (ii) to pay any amounts due on the Demand Loan; (iii) to pay Deferred Consideration to the Seller, or (iv) towards provision for the Residual Income Beneficiary or towards payment of, or provision for, income tax payable in respect of such distribution, and the remainder (if any) will be deposited into the GIC Account and applied as Available Revenue Receipts on the next succeeding Trust Payment Date; and
- all Available Principal Receipts will continue to be applied in accordance with the Pre-Acceleration Principal Priority of Payments save that, whilst any Covered Bonds remain outstanding, moneys will not be applied to acquire new Housing Loans and Related Security from the Seller and/or to acquire Substitution Assets pursuant to paragraph (b) of the Pre-Acceleration Principal Priority of Payments and the remainder (if any) will be deposited into the GIC Account and applied as Available Principal Receipts on the next succeeding Trust Payment Date.

Application of moneys following service of a Notice to Pay

Following service on the Covered Bond Guarantor of a Notice to Pay (but prior to the occurrence of a Covered Bond Guarantor Event of Default and service of a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor, the Issuers and the Guarantor and/or the realisation of the Security and/or the commencement of winding up proceedings against the Trust) the Covered Bond Guarantor will apply Available Revenue Receipts and Available Principal Receipts on each Trust Payment Date to pay Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment, subject to paying certain higher ranking obligations of the Covered Bond Guarantor in the Guarantee Priority of Payments. In such circumstances, the Intercompany Loan Provider, the Demand Loan Provider and the Seller will only be entitled to receive any remaining income of the Trust after all amounts due under the Covered Bond Guarantee in respect of the Covered Bonds have been paid in full or have otherwise been provided for.

Acceleration of the Covered Bonds following a Covered Bond Guarantor Event of Default

Following the occurrence of a Covered Bond Guarantor Event of Default and service of a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor, the Issuers and the Guarantor, the Covered Bonds will become immediately due and repayable (if not already due and payable as against the Relevant Issuer (and the Guarantor if ANZNIL is the Issuer)) and each of the Bond Trustee and the Security Trustee may or shall take such proceedings or steps in accordance with the first and third paragraphs, respectively, of Condition 9(c) (*Enforcement*) and the Covered Bondholders shall have a claim against the Covered Bond Guarantor, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount in respect of each Covered Bond of each Series together with accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable by the Relevant Issuer and the Guarantor (if ANZNIL is the Issuer) under Condition 7 (*Taxation*)) and the Security created by the Covered Bond Guarantor over the Charged Property will

become enforceable (if not already realised). Any moneys received or recovered by the Security Trustee following service of a Covered Bond Guarantee Acceleration Notice and/or the commencement of winding up proceedings against the Trust and/or the realisation of the Security will be distributed according to the Post-Enforcement Priority of Payments.

For a more detailed description of the transactions summarised above relating to the Covered Bonds see, amongst other relevant sections of this Prospectus, "*Programme Overview*", "*Risk Factors*", "*Summary of the Principal Documents*", "*Credit Structure*", "*Cashflows*", "*The Housing Loan Portfolio*" and "*Terms and Conditions of the Covered Bonds*" below.

RISK FACTORS

Introduction

Any investment in the Covered Bonds issued under the Programme will involve risks including those described in this section. All principal or material risks that have been identified by the Issuers, the Guarantor and the Covered Bond Guarantor are included in this section. The risks and uncertainties described below are not the only ones that the Issuers, the Guarantor or the Covered Bond Guarantor may face. Additional risks and uncertainties that the Issuer, the Guarantor or the Covered Bond Guarantor are unaware of, or that they currently deem to be immaterial, may also become important risk factors that affect them. Prospective investors should carefully consider the following discussion of the risk factors and the other information in this Prospectus and consult their own financial and legal advisers about the risks associated with the Covered Bonds before deciding whether an investment in the Covered Bonds is suitable for them.

As at the date of this Prospectus, the Issuers, the Guarantor and the Covered Bond Guarantor believe that the following risk factors may affect the Issuers' ability to fulfil their obligations, or the Guarantor's ability to perform its obligations (in the case of Covered Bonds issued by ANZNIL) or the Covered Bond Guarantor's ability to perform its obligations, under or in respect of the Covered Bonds, the Guarantee or the Covered Bond Guarantee and could be material for the purpose of assessing the market risks associated with the Covered Bonds.

If any of the listed or unlisted risks actually occurs, the Issuers' or the Guarantor's business, operations, financial condition or reputation could be materially adversely affected, with the result that the trading price of the Covered Bonds of the Relevant Issuer could decline and an investor could lose all or part of its investment. These factors are contingencies that may or may not occur and none of the Issuers, the Guarantor or the Covered Bond Guarantor are in a position to express a view on the likelihood of any such contingency occurring. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

General Risk Factors Relating to the Covered Bonds

If an Issuer Event of Default occurs, the Covered Bonds will accelerate as against the Relevant Issuer and the Guarantor (if ANZNIL is the Issuer) but will not accelerate as against the Covered Bond Guarantor unless and until a Covered Bond Guarantor Event of Default occurs.

The Relevant Issuer and the Guarantor (in the case of Covered Bonds issued by ANZNIL) will be liable to make payments when due on the Covered Bonds issued by it. The obligations of the Relevant Issuer under the Covered Bonds and the Guarantor under the Guarantee will be direct, unsecured, unconditional and unsubordinated obligations, ranking *pari passu* without any preference amongst themselves (in the case of the Covered Bonds) and equally with all other present and future unsecured and unsubordinated obligations (other than any obligation preferred by mandatory provisions of applicable law).

The obligations of the Covered Bond Guarantor under the Covered Bond Guarantee will be secured by the Security created under the Security Deed.

Prior to the occurrence of a Covered Bond Guarantor Event of Default, if an Issuer Event of Default occurs in respect of a particular Series of Covered Bonds then, following the service of an Issuer Acceleration Notice on the Relevant Issuer, the Guarantor (if ANZNIL is the Issuer) and the Covered Bond Guarantor, the Covered Bonds of all Series then outstanding will accelerate as against the Relevant Issuer and the Guarantor (if ANZNIL is the Issuer) but will be subject to, and have the benefit of, payments made by the Covered Bond Guarantor under the Covered Bond Guarantee (following service of a Notice to Pay). The Covered Bond Guarantor will have no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Relevant Issuer, the Guarantor (if ANZNIL is the Issuer) and the Covered Bond Guarantor of an Issuer Acceleration Notice and service by the Bond Trustee on the Covered Bond Guarantor of a Notice to Pay. The occurrence of an Issuer Event of Default will not constitute a Covered Bond Guarantor Event of Default.

If a Covered Bond Guarantor Event of Default occurs in respect of a particular Series of Covered Bonds, then following the service of a Covered Bond Guarantee Acceleration Notice, the Covered Bonds of all Series outstanding will accelerate as against the Relevant Issuer and the Guarantor (if ANZNIL is the Issuer) (if not already accelerated following the occurrence of an Issuer Event of Default and the service on the Issuers, the Guarantor and the Covered Bond Guarantor of an Issuer Acceleration Notice) and the obligations of the Covered Bond Guarantor under the Covered Bond Guarantee will accelerate.

The Relevant Issuer, the Guarantor (if ANZNIL is the Issuer) and the Covered Bond Guarantor will each be liable for their obligations in respect of the Covered Bonds and the Covered Bonds will not represent an obligation of any other party to the Programme.

The Covered Bonds will not represent an obligation or be the responsibility of any of the Arrangers, the Dealers, the Bond Trustee, the Security Trustee, any member of the group comprising ANZBGL and its subsidiaries (together, the "ANZ Group") (other than ANZ New Zealand and ANZNIL in their capacities as Issuers and Guarantor under the Programme Documents) or any other party to the Programme, their officers, members, directors, employees, security holders or incorporators, other than the Issuers, the Guarantor (in the case of Covered Bonds issued by ANZNIL) and the Covered Bond Guarantor. The Issuers, the Guarantor (in the case of Covered Bonds issued by ANZNIL) and the Covered Bond Guarantor will each be liable solely in their corporate capacity for their obligations in respect of the Covered Bonds and such obligations will not be the obligations of their respective officers, members, directors, employees, security holders or incorporators.

Numerous Series of Covered Bonds may be issued under the Programme and there is no assurance that the issue of a further Series would not ultimately be adverse to the interests of existing Covered Bondholders.

Covered Bonds issued under the Programme may be fungible with an existing Series of Covered Bonds (in which case they will form part of such Series) or have different terms to an existing Series of Covered Bonds (in which case they will constitute a new Series).

All Covered Bonds issued from time to time will rank *pari passu* with each other in all respects (save as set out in the Guarantee Priority of Payments) and will share in the security granted by the Covered Bond Guarantor under the Security Deed.

In order to ensure that any further issue of Covered Bonds under the Programme does not adversely affect existing Covered Bondholders:

- ANZ New Zealand (as Intercompany Loan Provider) will, subject to certain conditions precedent, be obliged to make a Term Advance to the Covered Bond Guarantor in an amount equal to either (i) the Principal Amount Outstanding on the Issue Date of such further issue of Covered Bonds in the Specified Currency of the relevant Series or Tranche of Covered Bonds or (ii) the NZ dollar Equivalent of the Principal Amount Outstanding on the Issue Date of such further issue of Covered Bonds, and for a matching term. The Covered Bond Guarantor will use the proceeds of such Term Advance (if not denominated in NZ dollars, upon exchange into NZ dollars under the applicable Non-Forward Starting Covered Bond Swap): (i) to fund (in whole or in part) the Purchase Price of a New Housing Loan Portfolio (consisting of Housing Loans and the Related Security originated by the Seller) from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or (ii) acting on the directions of the Trust Manager, to invest in Substitution Assets in an amount not exceeding the prescribed limit (as specified in the Establishment Deed) to the extent required to meet the Asset Coverage Test; and thereafter or otherwise the Covered Bond Guarantor may use such proceeds (subject to complying with the Asset Coverage Test): (A) if an existing Series or Tranche or part of an existing Series or Tranche of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds to which the Term Advance relates) to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced (after exchange into the currency of the Term Advance(s) being repaid, if necessary); and/or (B) to make a repayment of the Demand Loan, provided that the Calculation Manager has determined the outstanding balance of the Demand Loan by calculating the Asset Coverage Test as at the Intercompany Loan Drawdown Date having taken into account such repayment and the Calculation Manager has confirmed that the Asset Coverage Test will continue to be

met after giving effect to such repayment; and/or (C) to make a deposit of all or part of the proceeds into the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit); and

- the Asset Coverage Test will be required to be met both before and immediately after any further issue of Covered Bonds; and
- on or prior to the date of issue of any further Covered Bonds, the Relevant Issuer will be obliged to obtain written confirmation from each of the Rating Agencies that such further issue would not adversely affect the then current credit ratings of the existing Covered Bonds.

However, there is no assurance that the issue of a further series of Covered Bonds would not be ultimately adverse to the interests of any existing holder of Covered Bonds, because, for instance, the level of collateralisation in the cover pool is reduced, or because of the timing subordination risk, as described below.

The Seller will, subject to the satisfaction of certain conditions (including the criteria for Qualifying Housing Loans) be permitted to sell further Housing Loans to the Covered Bond Guarantor from time to time.

Each series of Covered Bonds is likely to have a different Final Maturity Date and there is a risk that Covered Bonds maturing later will not be paid or will not be paid in full under the Covered Bond Guarantee as cover pool assets are not segregated for different Series of Covered Bonds.

While each Series of Covered Bonds will rank *pari passu* with all other Series of Covered Bonds (and, save for certain debts of the Issuer required to be preferred by law at least equally with all other present and future unsecured and unsubordinated obligations of the Relevant Issuer, from time to time outstanding) each Series of Covered Bonds is likely to have a different Final Maturity Date. There is a risk that Covered Bonds maturing later will not be paid or will not be paid in full under the Covered Bond Guarantee, as cover pool assets are not segregated for different Series of Covered Bonds and will be used to repay earlier maturing Covered Bonds first. This risk is only partially mitigated by the Amortisation Test. In essence, the Amortisation Test will be breached if the Amortisation Test Aggregate Housing Loan Amount is less than the New Zealand Dollar Equivalent of the aggregate Principal Amount Outstanding under the Covered Bonds. If the Amortisation Test is breached then a Covered Bond Guarantor Event of Default will occur which will (subject to the Conditions) lead to the service of a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor, the Relevant Issuer and the Guarantor, and the acceleration of the obligations under the Covered Bond Guarantee in relation to all Covered Bonds then outstanding (hence any further timing subordination will cease to exist). However, there is no guarantee that the remaining cover pool assets will be sufficient to meet in full the claims of the remaining Covered Bondholders under the Covered Bond Guarantee.

A Series of Bonds with an earlier Final Maturity Date than a Series of Bonds in respect of which repayment of principal has been deferred until the Extended Due for Payment Date may start receiving repayment of principal in advance of such Series of Extendible Maturity Covered Bonds.

If the applicable Final Terms for a Series of Covered Bonds provide that such Covered Bonds are subject to an Extended Due for Payment Date ("**Extendable Maturity Covered Bonds**") then (subject to no Covered Bond Guarantor Event of Default having occurred) following the failure by the Relevant Issuer and the Guarantor (in the case of Covered Bonds issued by ANZNIL) to pay, in full, the Final Redemption Amount of the relevant Series of Extendible Maturity Covered Bonds on their Final Maturity Date (subject to applicable grace periods) and if, following the service of a Notice to Pay on the Covered Bond Guarantor (by no later than the date which falls one Business Day prior to the Extension Determination Date), payment of the Guaranteed Amounts corresponding to the unpaid portion of such Final Redemption Amount in respect of the relevant Series of Extendible Maturity Covered Bonds are not paid in full by the earlier of (a) the date which falls two Business Days after service of such Notice to Pay on the Covered Bond Guarantor or if later, the Final Maturity Date (in each case, subject to any grace period) and (b) the Extension Determination Date, then, subject to the following paragraph, the payment of such Guaranteed Amounts shall be automatically deferred to the Extended Due for Payment Date for the relevant Series of Extendible Maturity Covered Bonds.

To the extent that the Covered Bond Guarantor has received a Notice to Pay and has sufficient moneys available to pay in whole or in part the Guaranteed Amounts corresponding to the unpaid portion of the Final Redemption Amount in respect of the relevant Series of Extendable Maturity Covered Bonds, the Covered Bond Guarantor will be required to make such payment in accordance with the Guarantee Priority of Payments and as described in Condition 5(a) (*Final Redemption*) on any Interest Payment Date (from, and including, subject to applicable grace periods, the Final Maturity Date for such Covered Bonds) up to and including the relevant Extended Due for Payment Date. The Extended Due for Payment Date will be specified in the applicable Final Terms. Interest will continue to accrue and be payable on the unpaid amount in accordance with Condition 4 (*Interest and other Calculations*) and the Covered Bond Guarantor will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date. In these circumstances, except where the Covered Bond Guarantor has failed to apply money in accordance with the Guarantee Priority of Payments, failure by the Covered Bond Guarantor to make payment in respect of the Final Redemption Amount on the Final Maturity Date (or such later date within any applicable grace period) shall not constitute a Covered Bond Guarantor Event of Default. However, failure by the Covered Bond Guarantor to pay Guaranteed Amounts corresponding to the Final Redemption Amount or the balance thereof, as the case may be, on the Extended Due for Payment Date and/or pay Guaranteed Amounts constituting Scheduled Interest on any Original Due for Payment Date up to and including the Extended Due for Payment Date will (subject to any applicable grace period) be a Covered Bond Guarantor Event of Default.

The Final Maturity Dates for different Series of Covered Bonds may not be the same. In the case of a Series of Extendable Maturity Covered Bonds, if the principal amounts have not been repaid in full by the Extension Determination Date, then the repayment of unpaid principal amounts shall be deferred until the Extended Due for Payment Date. This means that a Series of Covered Bonds having an earlier Final Maturity Date than such Extended Due for Payment Date may start receiving principal repayments in advance of the Series of Extendable Maturity Covered Bonds in respect of which unpaid principal amounts have been deferred until such Extended Due for Payment Date.

The Extended Due for Payment Dates for different Series of Extendable Maturity Covered Bonds may not be the same. On each Trust Payment Date following the service of a Notice to Pay on the Covered Bond Guarantor (but prior to the service of a Covered Bond Guarantee Acceleration Notice and/or the commencement of winding up proceedings against the Trust and/or the realisation of the Security), the Covered Bond Guarantor will apply Available Revenue Receipts and Available Principal Receipts in accordance with the Guarantee Priority of Payments. To the extent that the amount available for distribution under the Guarantee Priority of Payments would be insufficient to pay the Scheduled Interest, the Scheduled Principal or the Final Redemption Amount of any Series of Covered Bonds to which an Extended Due for Payment Date applies, the shortfall will be divided amongst all such Series of Covered Bonds on a pro rata and *pari passu* basis.

A range of Covered Bonds may be issued, and these Covered Bonds may have features which contain particular risks for potential investors.

A range of Covered Bonds may be issued under the Programme. A number of these Covered Bonds may have features which contain particular risks for potential investors. Set out below is a description of Covered Bonds' most common such features:

Covered Bonds subject to optional redemption by the Issuer

An optional redemption feature of Covered Bonds is likely to limit their market value. During any period when the Issuer may elect to redeem Covered Bonds, the market value of those Covered Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Covered Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Fixed Rate Covered Bonds

Investment in Fixed Rate Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Covered Bonds.

Fixed/Floating Rate Covered Bonds

Covered Bonds may bear interest at a rate that converts from a fixed rate to a floating rate or *vice versa*. If the rate converts from a fixed rate to a floating rate, the spread on the Covered Bonds may be less favourable than the prevailing spreads on comparable Floating Rate Covered Bonds relating to the same reference rate. In addition, the new floating rate may at any time be lower than the interest rates on other Covered Bonds. If the rate converts from a floating rate to a fixed rate, the fixed rate may be lower than the then prevailing interest rates on the relevant Covered Bonds.

Covered Bonds issued at a substantial discount or premium

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.

A downgrade in the corporate credit rating of ANZ New Zealand or the sovereign credit rating of New Zealand may have a negative impact on the credit ratings of the Covered Bonds.

The credit ratings assigned to a Series of Covered Bonds by Fitch address the likelihood of full and timely payment to Covered Bondholders of all payments of interest on each Interest Payment Date and the Final Maturity Date and the likelihood of ultimate payment of principal on the Final Maturity Date. The credit ratings assigned to the Covered Bonds by Moody's address the expected loss posed to potential investors. The expected credit ratings of a Series of Covered Bonds will be set out in the applicable Final Terms for such Series of Covered Bonds. Any Rating Agency may lower its credit rating or withdraw its credit rating if, in the sole judgement of the Rating Agency, the credit quality of the Covered Bonds has declined or is in question. 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 (including as a result of changes to rating methodologies). A credit rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Covered Bonds. A downgrade in the corporate credit rating of ANZ New Zealand or the sovereign credit rating of New Zealand may have a negative impact on the credit ratings of the Covered Bonds.

In the event that a credit rating assigned to the Covered Bonds or ANZ New Zealand (in its capacity as Issuer and Guarantor) is subsequently lowered or withdrawn or qualified for any reason, no other person or entity is obliged to provide any additional support or credit enhancement with respect to the Covered Bonds. The Issuers and the Guarantor may be adversely affected, the market value of the Covered Bonds is likely to be adversely affected and the ability of the Issuers and the Guarantor (in the case of Covered Bonds issued by ANZNIL) to make payment under the Covered Bonds may be adversely affected.

There is no obligation on the Issuers to ensure that an AAA rating is maintained by Fitch or an Aaa rating is maintained by Moody's and the Issuers are under no obligation to change the Asset Percentage (or any other term) in line with the level of credit enhancement required to ensure an AAA rating by Fitch or an Aaa rating by Moody's using Moody's expected loss methodology.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such credit ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU credit rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and credit

ratings is set out in the "Programme Overview—Ratings" section of this Prospectus and will be disclosed in the Final Terms.

Covered Bondholders should not place undue reliance on the delivery of a Rating Affirmation Notice.

Each Series of Covered Bonds to be issued under the Programme will, unless otherwise specified in the applicable Final Terms, be rated "Aaa" by Moody's and "AAA" by Fitch. 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 Agency.

The terms of the Programme Documents provide that, if certain events or circumstances occur, the Trust Manager must deliver a Rating Affirmation Notice to the Covered Bond Guarantor (and copied to the Seller and each Rating Agency) confirming that it has notified the Rating Agencies of the event or circumstances and that the Trust Manager is satisfied, for the purposes of the Programme Documents, following discussions with the Rating Agencies, that the event or circumstances, as applicable, will not result in a reduction, qualification or withdrawal of the credit ratings then assigned by the Rating Agencies and if a Rating Agency confirmation is required for the purposes of the Programme Documents and the Rating Agency does not consider such confirmation necessary, the Trust Manager shall be entitled to assume that the then current credit rating of the Covered Bonds from that Rating Agency will not be downgraded or withdrawn by such Rating Agency as a result of such event or circumstance.

A credit rating does not address all matters that may be of relevance to Covered Bondholders, including, without limitation, in the case of a Rating Affirmation Notice, whether any action proposed to be taken by the Issuers, the Guarantor, the Covered Bond Guarantor, the Seller, the Servicer, the Trust Manager, the Calculation Manager, the Bond Trustee, the Security Trustee or any other party to a Programme Document is either (a) permitted by the terms of the relevant Programme Document, or (b) in the best interests of, or not materially prejudicial to, some or all of the Covered Bondholders. The fact that the Rating Agencies have not advised that the then current credit ratings of the Covered Bonds would not be adversely affected or withdrawn does not impose or extend any actual or contingent liability on the Rating Agencies to the Issuers, the Guarantor, the Covered Bond Guarantor, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person or create any legal relations between the Rating Agencies and the Issuers, the Guarantor, the Covered Bond Guarantor, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person whether by way of contract or otherwise.

Any Rating Affirmation Notice, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transaction of which the securities form part since the issuance closing date. A Rating Affirmation Notice is given on the basis that it will not be construed as advice for the benefit of any parties to the transaction. Covered Bondholders should not place undue reliance on the delivery of a Rating Affirmation Notice.

The Security Trustee is not obliged to take action in certain circumstances and the manner in which the Security Trustee exercises its powers may adversely affect the interests of the Covered Bondholders.

Except where expressly provided otherwise in the Security Deed, the Security Trustee shall not be obliged to take any steps under the Security Deed or any of the other Programme Documents or exercise any of its powers, rights, trusts, authorities, duties, functions or discretions under or pursuant to the Security Deed or any other Programme Document to which the Security Trustee is a party unless the Security Trustee shall have been directed to do so by the Bond Trustee (so long as there are any Covered Bonds outstanding) or (if there are no Covered Bonds outstanding) the Majority Secured Creditors and the Security Trustee shall have been indemnified and/or secured to its satisfaction, provided always that the Security Trustee shall not be bound to take any enforcement proceedings which may, in the opinion of the Security Trustee in its absolute discretion, result in the Security Trustee failing to receive any payment to which it is or would be entitled.

Where the Security Trustee is required to have regard to the Covered Bondholders (or any Series thereof), it shall have regard to the general interests of the Covered Bondholders (or any Series thereof) as a class and shall not have regard to any interests arising from circumstances particular to individual

Covered Bondholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular country, territory or any political subdivision thereof, and the Security Trustee shall not be entitled to require, nor shall any Covered Bondholder, Receiptholder or Couponholder be entitled to claim from, the Issuers, the Guarantor (if ANZNIL is the Issuer), the Covered Bond Guarantor, the Bond Trustee, the Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Covered Bondholders, Receiptholders or Couponholders, except to the extent already provided for in Condition 7 (*Taxation*).

If, in connection with the exercise of its powers, trusts, authorities or discretions, the Security Trustee is of the opinion that the interests of the holders of the Covered Bonds of any one or more Series could or would be materially prejudiced thereby, the Security Trustee may determine that it shall not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution or by a direction in writing of such Covered Bondholders of not less than 25 per cent. of the NZ dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds of the relevant Series then outstanding, and which has not been contradicted by a direction in writing of such Covered Bondholders of an equal or greater NZ dollar Equivalent received by the Security Trustee prior to exercise thereof.

The Bond Trustee and the Security Trustee may agree to modifications to the Programme Documents without, respectively, the Covered Bondholders or other Secured Creditors' prior consent.

Pursuant to the terms of the Bond Trust Deed and the Security Deed, the Bond Trustee and the Security Trustee may without the consent or sanction of any of the Covered Bondholders of any Series, the related Receiptholders and/or the Couponholders and without the consent of the other Secured Creditors (other than any Secured Creditor who is party to the relevant document) at any time and from time to time concur with the Relevant Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) and the Covered Bond Guarantor (or the Trust Manager on its behalf) and any other party in making any modification to the Covered Bonds of one or more Series, the related Receipts and/or Coupons or to the Bond Trust Deed, the Security Deed or the other Programme Documents (a) provided that the modification is not a Series Reserved Matter and that in the opinion of the Bond Trustee such modification will not be materially prejudicial to the interests of the Covered Bondholders of any Series, (b) which is, in the opinion of the Bond Trustee, of a formal, minor or technical nature, or in the opinion of the Bond Trustee is made to correct a manifest error or to comply with mandatory provisions of law (and for this purpose the Bond Trustee may disregard whether any such modification relates to a Series Reserved Matter) or (c) which is made to enable Covered Bondholders and Secured Creditors to obtain the protection and/or other benefits of any legislation or regulation or any directive of any regulatory body, including, without limitation, the Reserve Bank of New Zealand ("**RBNZ**"), that is introduced in New Zealand for the purpose of supporting the issuance of covered bonds, provided that the Bond Trustee is of the opinion that such modification will not be materially prejudicial to the interests of the Covered Bondholders of any Series.

Covered Bondholders will not have a direct right to vote or take enforcement action.

Holders of beneficial interests in the Global Covered Bonds will not have a direct right to vote in respect of the relevant Covered Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear, Clearstream, Luxembourg and/or DTC to appoint appropriate proxies.

Similarly, holders of beneficial interests in the Global Covered Bonds will not have a direct right under the Global Covered Bonds to take enforcement action against the Relevant Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or the Covered Bond Guarantor in the event of default under the relevant Covered Bonds or other Programme Documents but will have to rely upon their rights under the Bond Trust Deed.

Covered Bondholders must act through the Bond Trustee (unless the Bond Trustee fails to do so within a reasonable time and such failure is continuing) and the Security Trustee, and there can be no assurance that the actions, or the failure to act, by the Bond Trustee or the Security Trustee will not adversely affect any Covered Bondholders.

Only the Bond Trustee may enforce the provisions of the Bond Trust Deed. No Covered Bondholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Relevant Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or the Covered Bond Guarantor to enforce the performance of any of the provisions of the Bond Trust Deed or to directly enforce the provisions of any other Programme Document unless the Bond Trustee, having become bound to so proceed, fails to do so within a reasonable time and such failure is continuing, in which event any Covered Bondholder, Receiptholder or Couponholder may, himself or herself institute such proceedings and/or prove in the winding up, administration or liquidation of the Relevant Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or the Covered Bond Guarantor to the same extent and in the same jurisdiction (but not further or otherwise than the Bond Trustee would have been entitled to do so in respect of the Covered Bonds, Receipts and Coupons and/or the Bond Trust Deed).

Further, only the Security Trustee may enforce the Security Deed and the Security. No Secured Creditor is entitled to enforce the Security or the provisions of the Security Deed or to appoint or cause to be appointed a receiver, manager or receiver and manager to any of the Charged Property or otherwise to exercise any power conferred by the terms of any applicable law on charges except as provided in the Security Deed.

There can be no assurance that the actions, or the failure to act, by the Bond Trustee or the Security Trustee, as the case may be, will not adversely affect any Covered Bondholders.

The Relevant Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) and the Covered Bond Guarantor have not agreed to submit to the jurisdiction of New York courts and therefore if the Covered Bondholder wants to proceed directly against the Relevant Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or the Covered Bond Guarantor, then the Covered Bondholder may need to bring a suit in the courts of England and Wales or New Zealand.

Neither the Relevant Issuer, nor the Guarantor (in the case of Covered Bonds issued by ANZNIL) or the Covered Bond Guarantor have expressly agreed to submit to the jurisdiction of New York federal or state courts in respect of the Covered Bonds or appointed an agent for service of process for such purpose. In the limited instances where a Covered Bondholder may proceed directly against the Relevant Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or Covered Bond Guarantor due to a failure to act by the Bond Trustee or the Security Trustee, as the case may be, as described herein, it may be necessary for such Covered Bondholder to bring a suit in the courts of England and Wales or New Zealand (as applicable) to enforce its rights against the Relevant Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or the Covered Bond Guarantor, as the case may be, with respect to the Bond Trust Deed or any other Programme Document.

Any direction to the Bond Trustee or the Security Trustee to take any enforcement action must be passed at a single meeting of the holders of all Covered Bonds of all Series then outstanding, and therefore the holders of a single Series of Covered Bonds may not be able to give any directions to the Bond Trustee or the Security Trustee without the agreement of the holders of other outstanding Series of Covered Bonds.

Any Extraordinary Resolution to direct the Bond Trustee to serve an Issuer Acceleration Notice following an Issuer Event of Default, to direct the Bond Trustee to serve a Covered Bond Guarantee Acceleration Notice following a Covered Bond Guarantor Event of Default and any direction to the Bond Trustee or Security Trustee to take any enforcement action must be passed at a single meeting of the holders of all Covered Bonds of all Series then outstanding and therefore the holders of a single Series of Covered Bonds may not be able to give any directions to the Bond Trustee or the Security Trustee without the agreement of the holders of other outstanding Series of Covered Bonds.

The Bond Trustee shall not be bound to take, or to give any direction to the Security Trustee to take, any other action under or in connection with the Bond Trust Deed, the Covered Bonds, the Receipts or

Coupons or any Programme Document and the Security Trustee shall not be bound to take enforcement proceedings in relation to the Bond Trust Deed, the Covered Bonds, the Receipts or the Coupons, the Security or any other Programme Document unless the Bond Trustee or Security Trustee, as applicable, shall have been indemnified and/or prefunded and/or secured to its satisfaction and provided that the Security Trustee shall not be bound to take any enforcement proceedings which may, in the opinion of the Security Trustee, in its absolute discretion, result in the Security Trustee failing to receive any payment to which it is or would be entitled.

An active and liquid secondary market for the Covered Bonds may not exist and there can be no assurance that a secondary market will develop.

No assurance is provided that there is an active and liquid secondary market for the Covered Bonds and there can be no assurance that a secondary market for the Covered Bonds issued by the Issuers will develop. The Covered Bonds have not been, and will not be, registered under the Securities Act or any other applicable securities laws and are subject to certain restrictions on the resale and transfer thereof as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*". To the extent that a secondary market exists or develops further, it may not continue for the life of the Covered Bonds or it may not provide Covered Bondholders with liquidity of investment with the result that a holder of the Covered Bonds may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the holder of the Covered Bonds to realise a desired yield. This is particularly the case for Covered Bonds that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Covered Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Covered Bonds.

Potential investors must therefore be able to bear the risks of any investment by them in the Covered Bonds for an indefinite period of time during the life of such Covered Bonds.

Insolvency of the Covered Bond Guarantor likely to adversely affect the Covered Bonds.

If one or more insolvency related events occurred in respect of the Covered Bond Guarantor, then this would constitute a Covered Bond Guarantor Event of Default, which is likely to adversely affect the Covered Bonds. For instance, all of the Covered Bonds will become capable of being declared immediately due and payable, the ratings of the Covered Bonds are likely to be adversely affected, the trading price and liquidity of the Covered Bonds in the secondary market is likely to be adversely affected and the price at which Selected Housing Loans can be sold or the value of the Housing Loans in the cover pool may be adversely affected.

To reduce the likelihood of the Covered Bond Guarantor becoming insolvent, it has agreed to limit its activities to those related to the Programme and not to incur any further indebtedness except as contemplated by the Programme Documents. Further, the claims of the Secured Creditors will be limited to the Charged Property. However, there is no assurance that the Covered Bond Guarantor will not become insolvent.

The interests of the Covered Bond Guarantor and the Trust Manager and the interests of the Issuers may conflict.

The Trust Manager is a subsidiary of ANZBGL and members of the board of the Trust Manager are currently employed by ANZBGL in senior positions. ANZBGL is the ultimate parent company of the Issuers. The Programme Documents contain undertakings of the Trust Manager and under the Programme Documents the Trust Manager will need to give directions to the Covered Bond Guarantor in relation to many matters where the interests of the Covered Bond Guarantor and the Trust Manager on the one hand and the interest of the Issuers on the other hand, may conflict. For instance (but without limiting the generality of the foregoing), the Covered Bond Guarantor (at the direction of the Trust Manager) may need to make claims against ANZ New Zealand under the Mortgage Sale Agreement if there has been a breach of a representation by ANZ New Zealand. Neither the Trust Manager nor the Issuers are required to ensure that no actual or potential conflicts of interest of the sort described in this paragraph arises and Covered Bondholders are taken to acknowledge that actual and potential conflicts of interest may exist in connection with the roles of ANZ New Zealand (in various capacities) and the Trust Manager.

Insolvency of an Issuer may adversely affect the Covered Bonds.

If one or more insolvency-related events occurred in respect of the Relevant Issuer or the Guarantor (in the case of Covered Bonds issued by ANZNIL) then this may adversely affect the Covered Bonds. For instance, it may adversely affect the timing of payments on the Covered Bonds, it may cause the ratings of the Covered Bonds to be adversely affected, it may affect the trading price and liquidity of the Covered Bonds in the secondary market, it may affect the value of the representations and warranties given by ANZ New Zealand as Seller of the Housing Loans, it may affect the ability of ANZ New Zealand to perform its role as Servicer of the Housing Loans and/or its other roles and/or it may affect the price at which Selected Housing Loans can be sold or the value of the Housing Loans in the cover pool.

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 of New Zealand Act 1989 (the "**RBNZ Act**"), differ significantly from similar provisions under the insolvency laws of other jurisdictions.

Pursuant to the RBNZ 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. The Covered Bond Guarantor could not be placed into statutory management by the RBNZ merely on the grounds that it is an associated person of ANZ New Zealand. As corporations, ANZNIL and the Covered Bond Guarantor may be placed into statutory management in similar circumstances under the Corporations (Investigation and Management) Act 1989 ("**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 bank or other corporation is declared to be subject to statutory management, a moratorium will apply. If a moratorium is imposed in respect of a bank or other corporation, no person shall commence any action or other proceedings against the bank or other corporation or exercise rights under any security over the property of the bank or other corporation. Accordingly, Covered Bondholders may be prevented from enforcing rights in connection with the Covered Bonds where the Relevant Issuer and/or the Covered Bond Guarantor have been placed into statutory management. However, provided that the Covered Bond Programme is registered, a moratorium in respect of ANZ New Zealand would not prevent the Covered Bond Guarantor or a person acting on its behalf, from exercising a power of attorney granted by ANZ New Zealand in relation to assets in the Asset Pool, nor would it affect the Relevant Issuer's obligation to pay moneys to the Covered Bond Guarantor, collected on behalf of, and held on trust for, the Covered Bond Guarantor.

If ANZ New Zealand were placed under statutory management, Covered Bondholders 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 minimising 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 Covered Bondholders are entitled to any recovery with respect to the Covered Bonds in any bankruptcy or certain other events in bankruptcy, insolvency, dissolution or reorganization relating to an Issuer, those holders might be entitled only to a recovery in New Zealand dollars.

Revisions to the Basel Capital Accord may adversely affect the risk-weighting of the Covered Bonds for investors who are subject to capital adequacy requirements.

The Basel Committee on Banking Supervision (the "BCBS") approved significant changes to the Basel II regulatory capital and liquidity framework in 2011 (such changes are referred to as "**Basel III**"). In particular, Basel III provides for a substantial strengthening of existing capital rules, including new capital and liquidity requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a minimum leverage ratio for financial institutions and certain minimum liquidity standards (referred to as the Liquidity Coverage Ratio and the Net Stable Funding Ratio). It is intended that member countries will implement the new capital standards and the new Liquidity Coverage Ratio as soon as possible (with provision for phased implementation, meaning that the measure will not apply in full until January 2019) with the Net Stable Funding Ratio having been applied from January 2018; however, implementation of Basel III requires national legislation and therefore the final rules and the timetable for their implementation in each jurisdiction may be subject to some level of national variation.

Implementation of the Basel framework and any changes as described above may have an impact on the capital requirements in respect of the Covered Bonds and/or on incentives to hold the Covered Bonds for investors that are subject to requirements that follow the relevant framework and, as a result, may affect the liquidity and/or value of the Covered Bonds.

Investors should consult their own advisers as to the consequences to, and effect on, them of the application of the Basel framework and any relevant implementing measures. There can be no certainty as to the precise effects of these or of any changes to the Basel framework on any investor or otherwise.

Because the Global Covered Bonds will be held by or on behalf of DTC and/or Euroclear and/or Clearstream, Luxembourg and/or an Alternative Clearing System, investors will have to rely on their procedures for transfer, payment and communication with the Relevant Issuer and/or the Guarantor.

Covered Bonds issued under the Programme may be represented by one or more Global Covered Bonds. Such Global Covered Bonds will be deposited with a common depositary or common safekeeper for Euroclear and/or Clearstream, Luxembourg and/or deposited with a custodian for DTC and/or deposited with a clearing system other than Euroclear and/or Clearstream, Luxembourg and/or DTC (an "**Alternative Clearing System**"). Apart from the circumstances described in the relevant Global Covered Bond, investors will not be entitled to Covered Bonds in definitive form. Euroclear and/or Clearstream, Luxembourg and/or DTC and/or any relevant Alternative Clearing System will maintain records of the beneficial interests in the Global Covered Bonds. While the Covered Bonds are represented by one or more Global Covered Bonds, investors will be able to trade their beneficial interests only through Euroclear and/or Clearstream, Luxembourg and/or DTC and/or any relevant Alternative Clearing System.

While the Covered Bonds are represented by one or more Global Covered Bonds, the Relevant Issuer and the Guarantor will discharge their payment obligations under the Covered Bonds by making payments to the relevant Paying Agent who will make payments to Euroclear and/or Clearstream, Luxembourg and/or DTC and/or any relevant Alternative Clearing System for distribution to their relevant account holders. A holder of a beneficial interest in a Global Covered Bond must rely on the procedures of Euroclear and/or Clearstream, Luxembourg and/or DTC and/or any relevant Alternative Clearing System to receive payments under the relevant Covered Bonds. The Issuers and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Covered Bonds.

Holders of beneficial interests in the Global Covered Bonds will not have a direct right to vote in respect of the relevant Covered Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and/or Clearstream, Luxembourg and/or DTC and/or any relevant Alternative Clearing System to appoint appropriate proxies.

Definitive Covered Bonds that have a denomination that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

In relation to any issue of Covered Bonds that have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Covered Bonds may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case, a Covered Bondholder who, as a result of trading such amounts, holds a principal amount which (after deducting integral multiples of such minimum Specified Denomination) is less than the minimum Specified Denomination in its account with the relevant clearing system at the relevant time may not receive a Definitive Covered Bond in respect of such holding (should Definitive Covered Bonds be printed) and would need to purchase an additional principal amount of Covered Bonds such that its holding amounts to the minimum Specified Denomination. If Definitive Covered Bonds are issued, Covered Bondholders should be aware that Definitive Covered Bonds that have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks relating to exchange rate movements and controls.

The Issuers and the Guarantor (in the case of Covered Bonds issued by ANZNIL), as the case may be, will pay principal and interest on the Covered Bonds and the Covered Bond Guarantor will make any payments under the Covered Bond Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the Investor's Currency) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency or the Specified Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Covered Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds and (3) the Investor's Currency-equivalent market value of the Covered Bonds. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Risks relating to changes of law, regulatory, accounting and/or administrative practices.

The structure of the issue of the Covered Bonds and the credit ratings which are to be assigned to them are based on (amongst other things) New Zealand law, regulatory, accounting and administrative practice in effect as at the date of this Prospectus, and having due regard to the expected tax treatment of all relevant entities under United Kingdom tax law and the published practice of HM Revenue & Customs in force or applied in the United Kingdom and New Zealand tax law and the published practice of the IRD in force or applied in New Zealand as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to New Zealand law, regulatory, accounting or administrative practice in New Zealand or the United Kingdom or to New Zealand tax law, or the interpretation or administration thereof, or to the published practice of HM Revenue & Customs as applied in the United Kingdom or the IRD as applied in New Zealand after the date of this Prospectus, nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuers and/or the Guarantor to make payments under the Covered Bonds when due or the ability of the Covered Bond Guarantor to make payments under the Covered Bond Guarantee when due.

For instance, no assurance can be given that additional laws and regulations will not arise with regard to the mortgage market in New Zealand generally, the Seller's particular sector in that market or specifically in relation to the Seller (including, without limitation, in the ability to charge, or the level of, early repayment fees or other types of fees and charges payable in respect of the Housing Loans). Any such action or developments or compliance costs may have a material adverse effect on the Housing Loan Portfolio, the Seller, the Covered Bond Guarantor, ANZ New Zealand and/or the Servicer and their respective businesses and operations. This may adversely affect the Covered Bond Guarantor's ability to make payments in relation to the Covered Bond Guarantee when due.

U.S. Foreign Account Tax Compliance Act ("FATCA") withholding may apply to payments on Covered Bonds, including as a result of the failure of a holder's bank or broker to provide information to taxing authorities.

A withholding tax of 30 per cent. may be imposed on payments made with respect to the Covered Bonds. This withholding tax generally will only apply to payments made with respect to the Covered Bonds on or after 1 January 2019 at the earliest, and only with respect to Covered Bonds 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 Covered Bondholder that holds Covered Bonds 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 Covered Bondholder itself might not otherwise have been subject to withholding. If a payment on the Covered Bonds is subject to this withholding tax, no additional amounts will be paid, and a Covered Bondholder will receive less than the expected amount of the payment.

Prospective investors should consult their tax advisers and their banks or brokers regarding the possibility of this withholding. For more information, see "*Regulation and Supervision – FATCA*". Under the Principal Agency Agreement, an Agent that is an FFI and either ceases to be, or fails to become, a participating FFI or registered deemed compliant FFI as those terms are defined in FATCA, can be removed on 30-days' written notice. See further Condition 10 (*Principal Paying Agent, Paying Agents and Registrars*).

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.

The London Inter-Bank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other benchmark indices (such as the Australian Bank Bill Swap Rate ("**BBSW**") and the New Zealand Bank Bill reference rate ("**BKBM**") are the subject of recent national, international and other regulatory guidance and proposals for reform. Examples of reforms that are already effective include the replacement of the British Bankers' Association as LIBOR administrator with ICE Benchmark Administration Limited, the replacement of the Australian Financial Markets Association as BBSW administrator with ASX Limited, the publication of the ASX BBSW Trade and Trade Reporting Guidelines, which allows for the benchmark indices to be calculated directly from a wider set of market transactions and the Treasury Laws Amendment (2017 Measures No. 5) Act 2018 of Australia, which, among other things, enables ASIC to make rules relating to the generation and administration of benchmark indices). 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 any Covered Bond where the interest rate is calculated with reference to such benchmark or may have other consequences that cannot be predicted.

Key international proposals for reform of "benchmarks" include the International Organisation of Securities Commission's *Principles for Financial Market Benchmarks* (July 2013) (the "**IOSCO Benchmark Principles**") and *Regulation (EU 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU* and the Benchmark Regulation, which was published in the Official Journal on 29 June, 2016 and has applied from 1 January 2018 with the exception of certain provisions that began to apply from 30 June 2016 and certain provisions that amend Regulation (EU) No 596/2014 on market abuse (the "**Market Abuse Regulation**") and therefore became effective on 3 July 2016, being the date on which the Market Abuse Regulation came into force.

The IOSCO Benchmark Principles aim to create an overarching framework of principles for benchmarks to be used in financial markets, specifically covering governance and accountability as well as the quality and transparency of benchmark design and methodologies.

The Benchmark Regulation applies to "contributors", "administrators" and "users" of "benchmarks" in the EU, and, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to have satisfied certain "equivalence" conditions in its local jurisdiction, to be "recognised" by the authorities of a Member State pending an equivalence decision or for the

benchmark being provided to have been "endorsed" for such purpose by an 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 unauthorised or unregistered benchmark administrators. The scope of the Benchmark Regulation is wide and, in addition to so-called "critical benchmark" indices such as LIBOR and EURIBOR, could also potentially apply to many other interest rate indices, as well as equity, commodity and foreign exchange rate indices and other indices (including "proprietary" indices or strategies) which are referenced in certain financial instruments (securities or OTC derivatives listed on an EU regulated market, EU multilateral trading facility (MTF), EU organised trading facility (OTF) or "systematic internaliser"), certain financial contracts and investment funds. Different types of "benchmark" are subject to more or less stringent requirements, and in particular a lighter touch regime may apply where a "benchmark" is not based on interest rates or commodities and the value of financial instruments, financial contracts or investment funds referring to a benchmark is less than €50bn, subject to further conditions.

The Benchmark Regulation could have a material impact on Covered Bonds 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 authorisation or is based in a non-EU jurisdiction which (subject to applicable transitional provisions) does not satisfy the "equivalence" conditions, is not "recognised" 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 Covered Bonds, the Covered Bonds 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 or affecting the volatility of the published rate or level.

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 27 July 2017, the UK Financial Conduct Authority 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.

On 21 September 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 benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest calculation provisions of the Terms and Conditions of the Covered Bonds or result in adverse consequences to holders of securities linked to such benchmark (including but not limited to Floating Rate Covered Bonds whose interest rates are linked to LIBOR or any other such benchmark that is subject to reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Covered Bond, the return on the relevant Covered Bond and the trading market for securities based on the same benchmark.

The "Terms and Conditions of the Covered Bonds" provide for certain fallback arrangements in the event that a published benchmark, such as LIBOR, (including any page on which such benchmark may

be published (or any replacement service)) becomes unavailable, including the possibility that the rate of interest could be set by reference to a substitute or successor rate that an independent advisor has determined (acting in good faith and in a commercially reasonable manner) in its sole discretion to be (a) the industry-accepted successor rate to the Reference Rate or (b) if no such industry accepted successor rate exists, the most comparable substitute or successor rate to the relevant Reference Rate and, where the independent advisor has determined a substitute or successor rate, that the independent advisor may determine (acting in good faith and in a commercially reasonable manner), 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 Reference Rate, in a manner that is consistent with industry-accepted practices for such substitute or successor rate. In certain circumstances the ultimate fallback of interest for a particular Interest Period or Interest Accrual Period (as applicable) may result in the rate of interest determined for the previous Interest Period or Interest Accrual Period (as applicable) being used. This may result in the effective application of a fixed rate for Covered Bond linked to such a benchmark based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of substitute or successor rate, 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, EURIBOR or any other "benchmark" as a result of international, national or other proposals for reform or other initiatives or investigations, could result in adjustment to the Terms and Conditions of the relevant Covered Bond or other consequences, depending on the specific provisions of the relevant Covered Bond and could have a material adverse effect on the value of and return on any such Covered Bonds linked to a "benchmark".

Risk factors relating to the Issuers and the Guarantor, including the ability of the Relevant Issuer and the Guarantor (if ANZNIL is the Issuer) to fulfil their obligations under the Covered Bonds and the Guarantee (in the case of Covered Bonds issued by ANZNIL)

Adverse credit and capital market conditions may significantly affect the ANZ New Zealand Group's ability to meet liquidity needs, adversely affect its access to international capital markets and increase its cost of funding.

The ANZ New Zealand Group relies on deposits, credit and capital markets to fund its business and as a source of liquidity. The ANZ New Zealand Group's 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 the ANZ New Zealand Group's 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. 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 intended to encourage economic growth has led to low interest rates which are encouraging 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 the ANZ New Zealand Group.

Changes in global political conditions, such as the "Brexit" referendum in the United Kingdom on 23 June 2016 (and the related negotiations with the European Union), 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. 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 the ANZ New Zealand Group. These conditions may also adversely affect the ANZ New Zealand Group's ability to raise wholesale funding in the international capital markets.

In the event the ANZ New Zealand Group's current sources of funding prove to be insufficient, the ANZ New Zealand Group 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, the ANZ New Zealand Group's credit ratings and credit capacity. The cost of these alternatives may be more expensive or on unfavourable terms, which could materially and adversely affect the ANZ New Zealand Group's results of operations, liquidity, capital resources and financial condition.

If the ANZ New Zealand Group is unable to source appropriate funding, it may be forced to reduce lending or begin to sell liquid securities. There is no assurance that the ANZ New Zealand Group can obtain favourable prices on some or all of the securities the ANZ New Zealand Group offers for sale. Such actions could materially and adversely impact the ANZ New Zealand Group's 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 and Iraq, 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 the ANZ New Zealand Group's 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 the ANZ New Zealand Group's business, operations and financial condition.

The ANZ New Zealand Group's financial performance is influenced by the political and economic conditions and the level of business activity in the countries and regions in which it operates or trades. Adverse changes in political, general business and economic conditions may adversely impact its business, operations and financial condition. As the ANZ New Zealand Group conducts substantially all of its lending business in New Zealand, its 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 the ANZ New Zealand Group's results of operations, liquidity, capital resources and financial condition.

Economic and political conditions and events in New Zealand which could adversely affect the ANZ New Zealand Group's 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 RBNZ 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 the ANZ New Zealand Group operates eventuate, asset values in the housing, commercial or rural property market could decline, unemployment could rise and corporate and personal incomes could suffer. Also, a deterioration in global markets, including equity, property, currency and other asset markets, could impact the ANZ New Zealand Group's customers and the security that the ANZ New Zealand Group holds against loans and other credit exposures, which may impact its 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.

Current economic conditions impacting the ANZ New Zealand Group and its customers include changes in the real estate market in New Zealand (see "*Risk Factors – A weakening of the real estate market in New Zealand could materially and adversely affect the ANZ New Zealand Group's business, operations and financial condition*"). For additional political conditions impacting the ANZ New Zealand Group, see "*Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the ANZ New Zealand Group's 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. The ANZ New Zealand Group's 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.

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

Competition in the markets in which the ANZ New Zealand Group operates may adversely affect its business, operations and financial condition.

The markets in which the ANZ New Zealand Group operates 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 payment systems, 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 the ANZ New Zealand Group by offering products and services traditionally provided by banks, including by obtaining banking licenses and/or by partnering with existing providers.

- 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 the ANZ New Zealand Group operates.
- Consumers and businesses may choose to transact using, or to invest in, new forms of currency (such as cryptocurrencies) to which the ANZ New Zealand Group 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 required to attract and retain customers.

ANZ New Zealand relies on bank deposits to fund a significant portion of its balance sheet. ANZ New Zealand competes with banks and other financial services firms for such deposits. Increased competition for deposits could increase ANZ New Zealand's cost of funding. To the extent that ANZ New Zealand is not able to successfully compete for deposits, ANZ New Zealand would be forced to rely more heavily on other, less stable or more expensive forms of funding, or to reduce lending. This could adversely affect ANZ New Zealand's business, operations or financial condition.

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

Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the ANZ New Zealand Group's business, operations, financial condition and reputation.

The ANZ New Zealand Group's businesses and operations are highly regulated. It is therefore subject to a substantial number of laws, regulations and policies in New Zealand, Australia and other countries in which it operates, trades, raises funds or in respect of which it has some other connection (including the United Kingdom and the United States).

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

Changes to laws, regulations and policies in New Zealand and the other jurisdictions where the ANZ New Zealand Group conducts business and/or raises funds may materially and adversely affect its business, operations, financial condition and reputation. Such changes may impact its corporate structure, businesses, strategies, capital, liquidity, funding and profitability and cost structures.

New Zealand Developments

The New Zealand Government and its agencies, including the RBNZ, the New Zealand Commerce Commission (the "**Commerce Commission**") and the New Zealand Financial Markets Authority ("**FMA**"), have supervisory oversight over the ANZ New Zealand Group. 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 1 January 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 "**AML/CFT Act**"); and
- the New Zealand Government's review of the RBNZ Act.

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

The ANZ New Zealand Group continues to expect increased regulatory focus on capital and liquidity requirements. For example, the RBNZ, APRA, the BCBS and regulators in other jurisdictions have revised standards and released discussion papers, proposals and decisions in regards to strengthening the resilience of the banking 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, the ANZ New Zealand Group considers that it is reasonable to anticipate an increase in surveillance and review work by the Commerce Commission across the industry (in addition to MBIE's review of consumer credit regulation announced in June 2018).

ANZ New Zealand is a registered bank under the RBNZ 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. ANZ New Zealand has been notified by the RBNZ that its Conditions of Registration will be updated as a result of some minor and technical changes to the RBNZ Liquidity Policy Annex ("**BS13A**") from 1 September 2018.

In the event that the RBNZ were to conclude that ANZ New Zealand did not satisfy the Conditions of Registration, sanctions could be imposed on it. These could include increases in the required levels of capital or additional limitations on the conduct of ANZ New Zealand's business. In addition, the RBNZ could require ANZ New Zealand 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 BCBS in respect of the Capital Accord (Basel III). That accreditation is subject to conditions and these have been incorporated into the current Conditions of Registration. ANZ New Zealand is reviewed by both the RBNZ and APRA in terms of maintaining that accreditation.

The RBNZ Liquidity Policy ("**BS13**"), which took effect from 30 March 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 per cent., 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 BCBS's new liquidity requirements. Future changes to liquidity requirements in New Zealand could adversely affect the ANZ New Zealand Group's business, operations, financial condition and reputation and could result in the ANZ New Zealand Group incurring substantial costs in order to comply with such changes.

There is currently an environment of heightened political scrutiny on the financial services industry in New Zealand and Australia. Following the Australian Royal Commission (as defined below) the FMA and the RBNZ announced 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 is not taking place in New Zealand. Each New Zealand bank was requested to provide a summary of work it has undertaken and ongoing work to identify and address conduct and culture issues in its business. ANZ New Zealand provided a detailed written response to the FMA and the RBNZ. As at the date of this Prospectus, the FMA and the RBNZ are conducting onsite visits, primarily to assess the validity of written responses. The Commerce Commission will also review matters relevant to its remit. The FMA and the RBNZ expect to report on their findings in late 2018. As at the date of this Prospectus, it is uncertain what further steps the FMA or the RBNZ may take and what impact the above, or 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—Royal Commission*" below.

Australian Developments

- *Royal Commission:* On 30 November 2017, the Australian Government publicly announced a Royal Commission into misconduct in the banking, superannuation and financial services industry (the "**Royal Commission**"). The final terms of reference for the Royal Commission dated 14 December 2017, among other things, require and authorise the Royal Commission to inquire into misconduct by financial services entities (including the ANZ Group). The Royal Commission must submit its final report, including the results of its inquiry and the Royal Commission's recommendations, not later than 1 February 2019. The Royal Commission will submit an interim report by 30 September 2018. As a member of the ANZ Group, any impact on the ANZ Group that arises as a result of the Royal Commission may also have an impact on the ANZ New Zealand Group.
- *Financial support:* 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 Australian parent banks of New Zealand's four largest banks, including ANZBGL. APRA has confirmed that, by 1 January 2021, no more than 5% of ANZBGL'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 ANZ New Zealand during times of financial stress. These, or future, APRA requirements may have an adverse effect on the ANZ New Zealand Group's business, results of operations, liquidity, capital resources or financial condition. See "*Regulation and Supervision—Restrictions on ANZBGL's ability to provide financial support to its New Zealand Operations—Effect of APRA's Prudential Standards*" for further discussion.
- *Bank levies:* As part of its 2017-18 federal budget, the Australian Government imposed a levy on liabilities for certain large banks, including the ANZ Group, with effect from 1 July 2017 ("**Major Bank Levy**"). The Major Bank Levy payable by the Group for the half year ended 31 March 2018 is A\$177 million. There is a risk that Australian State and Territory Governments may introduce similar levies. A bill to this effect was introduced into the South Australian Parliament in June 2017 but was not enacted. 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 the ANZ New Zealand Group.

Other Developments

- To the extent that the ANZ New Zealand Group has operations, trade or raise funds in, or have some other connection with, countries other than Australia or New Zealand, then such activities may be subject to the laws of, and regulation by agencies in, such countries, such as U.S. governmental agencies, including the Federal Reserve Board, the U.S. Department of Treasury and the Office of the Comptroller of the Currency, and United Kingdom agencies, including the FCA, and other financial industry regulatory bodies in those countries and in other relevant countries. To the extent that these regulatory requirements limit the ANZ New Zealand Group's operations or flexibility, they could adversely impact its profitability and prospects. In addition, the ANZ New Zealand Group's failure to comply with applicable laws, regulations or codes of practice could result in the imposition of sanctions by regulatory agencies, compensatory action by affected persons, and could damage the ANZ New Zealand Group's reputation, in any jurisdiction.
- These regulatory and other governmental agencies (including revenue and tax authorities) frequently review banking and tax laws, regulations and policies. Changes to laws, regulations or codes of practice, including changes in interpretation or implementation of laws, regulations or policies, could affect the ANZ New Zealand Group in substantial and unpredictable ways and may even conflict with each other. These may include, among other things, increasing required levels of bank liquidity and capital adequacy, requiring changes to systems and processes, limiting the types, amount and composition of financial services and products the ANZ New Zealand Group may offer, constraining outsourcing or offshoring arrangements and/or increasing the ability of non-banks to offer competing financial services and products, as well as changes to accounting standards, taxation laws and prudential regulatory requirements. For instance, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "**Dodd-Frank Act**") has many different components that affect many aspects, in the United States and internationally, of the business of banking, including securitization, proprietary trading, investing, over-the-counter ("**OTC**") derivatives and other activities, and the regulatory regime adopted under the Dodd-Frank Act is currently under review as a result of a Presidential executive order issued in February 2017. The Commodity Futures Trading Commission (the "**CFTC**") has implemented most of its rules for the regulation of the OTC swaps market and U.S. regulators have adopted rules implementing the Volcker Rule, each of which affects the ANZ New Zealand Group's business. See "*Regulation and Supervision—Dodd-Frank*".
- *Basel III*: the ANZ New Zealand Group continues to expect increased regulatory focus on capital and liquidity requirements. For example, the RBNZ, APRA, the BCBS and regulators in other jurisdictions have revised standards and released discussion papers, proposals and decisions in regards to strengthening the resilience of the banking 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.

Any failure by the ANZ New Zealand Group to comply with laws, regulations and policies in the jurisdictions in which it operates and/or obtains funds may result in a number of materially adverse effects for the ANZ New Zealand Group. This may include regulatory investigations, legal or regulatory sanctions, financial or reputational loss, litigation, fines, penalties, restrictions on its 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 the ANZ New Zealand Group being exposed to the risk of litigation brought by third parties (including through class action proceedings). The outcome of any litigation (including class action proceedings) may result in the payment of compensation to third parties and/or further remediation activities. For further information, see "*Litigation and contingent liabilities may adversely affect the ANZ New Zealand Group's business, operations and financial condition*".

The ANZ New Zealand Group is exposed to the risk of significant fines and sanctions in the event of breaches of regulation and law relating to anti-money laundering, counter-terrorism financing and sanctions, which could have a material adverse effect on its 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 the ANZ New Zealand Group operates across the Asia-Pacific region has heightened these operational and compliance risks. Furthermore, the upward trend in compliance breaches by global banks and the related fines and settlement sums means that these risks continue to be an area of focus for the ANZ New Zealand Group.

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, as well as increased regulatory scrutiny of the ANZ New Zealand Group by New Zealand regulators. While the full scope of any changes, if any, is not known, the ANZ New Zealand Group may incur additional costs associated with regulatory compliance that may adversely affect the ANZ New Zealand Group's 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 the ANZ New Zealand Group's business. For example, emerging technologies, such as cryptocurrencies, could limit its ability to track the movement of funds. A failure to operate a robust program to combat money laundering, bribery and terrorist financing or to ensure compliance with economic sanctions could have serious financial, legal and reputational consequences for the ANZ New Zealand Group and its employees. Consequences can include fines, criminal and civil penalties, civil claims, reputational harm and limitations on doing business in certain jurisdictions. These consequences, individually or collectively, could have a material adverse effect on the ANZ New Zealand Group's business, operations, financial condition and reputation.

A weakening of the real estate market in New Zealand could materially and adversely affect ANZ New Zealand's business, operations and financial condition.

Residential and rural property lending, together with real estate development and investment property finance, constitute an important part of ANZ New Zealand's business.

Declining asset prices could impact customers and counterparties and the value of the security (including residential and rural property) ANZ New Zealand holds against loans, which may impair its ability to recover amounts owed to it if its 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 loan-to-value ratio ("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, house prices remain elevated relative to incomes and rents. Declining asset prices and a reversal of house price growth could adversely affect ANZ New Zealand's business, operations and financial condition. Additionally, if New Zealand housing price growth subsides or property valuations decline, the demand for ANZ New Zealand's home lending products may decrease, which may materially and adversely affect its 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, could adversely impact ANZ New Zealand's home lending activities. In the case of residential loans, borrowers with loans in excess of their property value can show a higher propensity to default and, in the event of such defaults, ANZ New Zealand's security values would be eroded, causing it to incur higher credit losses, which could adversely affect its financial performance and condition. The demand for ANZ New Zealand's home lending products may also decline due to buyer concerns about decreases in values or

concerns about rising interest rates, which could make its lending products less attractive to potential homeowners and investors.

A material decline in residential housing prices could also cause losses in ANZ New Zealand's residential development portfolio if customers who are pre-committed to purchase these dwellings are unable or unwilling to complete their contracts and ANZ New Zealand is 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 ANZ New Zealand does business could result in a decrease in the amount of new lending it is able to write and/or increase the losses that it may experience from existing loans, which, in either case, could materially and adversely affect its business, operations and financial condition.

The ANZ New Zealand Group is subject to liquidity and funding risk, which may adversely affect its business, operations and financial condition.

Liquidity risk is the risk that the ANZ New Zealand Group is unable to meet its payment obligations as they fall due (including repaying depositors or maturing wholesale debt) or that it has 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 the ANZ New Zealand Group's borrowings and constrain the volume of new lending, which could adversely affect its profitability. Deterioration in investor confidence in the ANZ New Zealand Group could materially impact its cost of borrowing, and its ongoing operations and funding.

Funding risk is the risk of over-reliance on a funding source to the extent that a change in that funding source could increase overall funding costs or cause difficulty in raising funds. The ANZ New Zealand Group raises funding from a variety of sources, including customer deposits and wholesale funding in New Zealand and offshore markets to meet its funding obligations and to maintain or grow its business generally. In times of liquidity stress, if there is damage to market confidence in the ANZ New Zealand Group or if funding inside or outside of New Zealand is not available or constrained, the ANZ New Zealand Group's ability to access sources of funding and liquidity may be constrained and it could be exposed to liquidity risk. In any such cases, the ANZ New Zealand Group 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 its credit ratings. Even if available, the cost of these funding alternatives may be more expensive or on unfavourable terms, which could adversely affect the ANZ New Zealand Group's business, operations and financial condition.

Since 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 that the provision of this liquidity by major central banks will continue or 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 the Group's ability to replace maturing liabilities and access funding in a timely and cost-effective manner necessary to fund and grow the Group's businesses.

The ANZ New Zealand Group is subject to credit risk, which could have a material adverse effect on its business, operations and financial condition.

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

altogether. The ANZ New Zealand Group is also subject to the risk that its rights against third parties may not be enforceable in certain circumstances, which could result in credit losses. Should material credit losses occur to the ANZ New Zealand Group's credit exposures, it could have a material adverse effect on its business, operations and financial condition.

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 the ANZ New Zealand Group enters into, and from its dealings with, and holdings of, debt securities issued by other banks, financial institutions, companies, governments and government bodies where the financial conditions of such entities are affected by economic conditions in global financial markets.

The risk of credit-related losses may also be increased by a number of factors, including 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 the ANZ New Zealand Group counterparties, a reduction in the value of assets it holds as collateral, and a reduction in the market value of the counterparty instruments and obligations it holds. In assessing whether to extend credit or enter into other transactions with customers and/or counterparties, the ANZ New Zealand Group relies on information provided by or on behalf of customers and/or counterparties, including financial statements and other financial information. The ANZ New Zealand Group may also rely on representations of customers, counterparties and independent consultants as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. The ANZ New Zealand Group's financial performance could be negatively impacted to the extent it relies on information that is inaccurate or materially misleading.

The ANZ New Zealand Group holds provisions to cover credit impairment. The amount of these provisions is determined by assessing the extent of impairment inherent within the lending portfolio, based on current information. This process, which is critical to the ANZ New Zealand Group's financial results and condition, requires difficult, 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 the ANZ New Zealand Group fails to identify factors properly or fail to estimate accurately the impact of factors that are identified, the provisions made for credit impairment may be insufficient, which could have a material adverse effect on the ANZ New Zealand Group's business, operations and financial condition.

ANZ New Zealand may experience challenges in managing its capital base, which could give rise to greater volatility in capital ratios, and materially impact its business and their ability to obtain funding.

ANZ New Zealand's capital base is critical to the management of its businesses and access to funding. ANZ New Zealand is required by the RBNZ to maintain adequate regulatory capital, and changes to the capital adequacy requirements imposed by the RBNZ could affect its business.

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 ANZ New Zealand to raise additional capital. There can be no certainty that any additional capital required would be available or could be raised on reasonable terms.

ANZ New Zealand's 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 BCBS 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 the ANZ New Zealand Group's business, operations, financial condition and reputation.*" and in the section entitled "*Regulation and Supervision*".

ANZ New Zealand's failure to maintain its credit ratings and those of its subsidiaries could adversely affect their cost of funds, liquidity, competitive position and access to capital markets.

The credit ratings assigned to ANZ New Zealand and its subsidiaries by rating agencies are based on an evaluation of a number of factors, including its 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 section or by other events. In addition, a reduction in ANZBGL's credit ratings or in New Zealand's sovereign credit rating could adversely affect ANZ New Zealand's 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.

On 21 May 2018 Fitch affirmed the ratings of New Zealand's four major banks, including ANZ New Zealand with a stable outlook.

In February 2018, Fitch affirmed the ratings of the major Australian banks, including ANZBGL, with a stable outlook.

In January 2018, Moody's affirmed the rating of ANZBGL, with a stable outlook.

On 19 June 2017 Moody's lowered ANZ New Zealand's senior unsecured credit rating by one notch from Aa3 to A1, along with the ratings of the other three major New Zealand banks. Following this action, Moody's also amended the ratings outlook for the four major New Zealand banks to stable from negative.

On 22 May 2017 S&P lowered its assessment of the stand-alone credit profiles of almost all financial institutions operating in Australia, including ANZBGL. As a result, ANZ New Zealand's ratings for subordinated debt and hybrid debt were downgraded by one notch. ANZ New Zealand's senior unsecured credit ratings issued by S&P remain unchanged at AA- (long term) and A-1+ (short term). These ratings continue to have a negative outlook and would likely be affected by future downgrades in ANZBGL's senior unsecured credit ratings.

Any downgrade to ANZ New Zealand's senior unsecured credit ratings could adversely affect its cost of funds or constrain the volume of new lending, which could adversely affect its business, operations and financial condition. If ANZ New Zealand fails to maintain its credit ratings, this may reduce access to capital and wholesale debt markets, which could adversely affect its cost of funds and related margins, their liquidity, competitive position, existing contractual relations and the willingness of counterparties to transact with them. It could also trigger ANZ New Zealand's obligations under certain bilateral provisions in some of its trading and collateralised financing contracts.

Credit ratings may be revised, withdrawn or suspended by the relevant credit rating agency at any time. Credit ratings are not a recommendation by the relevant rating agency to invest in securities ANZ New Zealand offer.

Disruption of information technology systems or failure to successfully implement new technology systems could significantly interrupt the ANZ New Zealand Group's business, which could have a material adverse effect on the ANZ New Zealand Group's business, operations and financial condition.

The ANZ New Zealand Group and its service offerings (including digital banking) are highly dependent on information systems, applications and technology. There is a risk that these information systems, applications and technology, or the services they use or are dependent upon, might fail, including because of unauthorised access or use.

Most of the ANZ New Zealand Group's daily operations are computer-based and information systems, applications and technology are essential to maintaining effective communications with its customers.

It is also conscious that threats to information systems, applications and technology are continuously evolving and that cyber threats and the risk of attacks are increasing. The ANZ New Zealand Group may not be able to anticipate or implement effective measures to prevent or minimise 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.

The ANZ New Zealand Group may also be exposed to systems risks which 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 unauthorised access and integrate existing and future acquisitions and alliances.

To manage these risks, the ANZ New Zealand Group has disaster recovery and information technology governance in place. However, there can be no assurance that the steps the ANZ New Zealand Group is 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 its competitive position, which could adversely impact its business and have a material adverse effect on its business, operations and financial condition.

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

The ANZ New Zealand Group is exposed to risks associated with information security including cyber-attacks, which could adversely affect its financial results and reputation.

Information security means protecting information and information systems from unauthorised access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction. The ANZ New Zealand Group handles a considerable amount of personal and confidential information about its customers and its own internal operations.

The ANZ New Zealand Group employs a team of information security experts which is responsible for the development and implementation of its information security policy. The ANZ New Zealand Group also use third parties to process and manage information on its behalf, and any failure by such third parties could adversely affect the ANZ New Zealand Group's business. The ANZ New Zealand Group is conscious that threats to information 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 the ANZ New Zealand Group may be unable to develop policies and procedures to adequately address or mitigate such risks. Accordingly, information about the ANZ New Zealand Group and/or its clients may be inadvertently accessed, inappropriately distributed or illegally accessed or stolen. The ANZ New Zealand Group may not be able to anticipate or to implement effective measures to prevent or minimise 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 unauthorised access to its information systems or unauthorised use of its confidential information could potentially result in disruption of the ANZ New Zealand Group's operations, breaches of privacy laws, regulatory sanctions, legal action, and claims for compensation or erosion of its competitive market position, which could adversely affect the ANZ New Zealand Group's financial results and reputation.

The ANZ New Zealand Group is exposed to the impact of future climate change, geological events, plant, animal and human diseases, and other extrinsic events which may adversely affect its business, operations and financial condition.

The ANZ New Zealand Group and its customers are exposed to climate related events including climate change. These events include severe storms, droughts, fires, cyclones, hurricanes, floods and rising sea levels. The ANZ New Zealand Group and its customers may also be exposed to other events such as geological events (including volcanic 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 the ANZ New Zealand Group 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 its 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 the ANZ New Zealand Group services, and may also adversely affect its financial condition or collateral position in relation to credit facilities extended to customers, which may adversely affect the ANZ New Zealand Group's business, operations and financial condition.

In July 2017, the disease mycoplasma bovis ("**M.Bovis**") was found in cattle in New Zealand. In May 2018, the New Zealand Government announced an agreement with farming sector bodies to attempt to eradicate M.Bovis from New Zealand. The impact on the agricultural sector is uncertain at this point. However, it may have an adverse impact on the dairy and beef industries with consequent effects on the New Zealand banking sector, such as increasing lending losses of New Zealand banks, including ANZ New Zealand.

The ANZ New Zealand Group is subject to acquisition, divestment and restructuring risk, which could have a material adverse effect on its financial condition or results of operations.

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

On 12 January 2018, ANZ New Zealand announced that the agreement to sell UDC Finance Limited ("**UDC**") to HNA Group ("**HNA**") had been terminated and that the proposed divestment would not be completed following the New Zealand Overseas Investment Office's decision to decline HNA's application to acquire UDC. ANZ New Zealand continues to examine a broad range of options for UDC's future.

On 30 May 2018, ANZ New Zealand announced it had agreed to sell OnePath Life (NZ) Limited ("**OnePath Life NZ**") for NZ\$700 million to Cigna Corporation ("**Cigna**"). The sale includes a 20-year strategic alliance for Cigna to provide insurance solutions for ANZ New Zealand customers. The sale remains subject to regulatory approval and is expected to complete in 2019.

Any corporate opportunity that is pursued could, for a variety of reasons, turn out to have a material adverse effect on the ANZ New Zealand Group's financial condition or results of operations. The successful implementation of the ANZ New Zealand Group's corporate strategy will depend on a range of factors such as potential funding strategies and challenges associated with integrating or divesting businesses.

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 ANZ New Zealand's securities. Additionally, there are risks relating to the completion of any particular transaction occurring, including counterparty and settlement risk, and the non-satisfaction of any completion conditions (for example, relevant regulatory or third party approvals). The ANZ New Zealand Group's operating performance, risk profile and capital structure may be affected by these corporate opportunities and there is a risk that any of its 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 could 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.

Changes in fiscal and monetary policies may have a material adverse effect on the ANZ New Zealand Group's 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 the ANZ New Zealand Group for lending and investing and the return it will earn on those loans and investments. Both of these affect ANZ New Zealand's net interest margin and can materially affect the value of financial instruments it holds, such as debt securities and hedging instruments. The measures and policies of the RBNZ can also affect the ANZ New Zealand Group's borrowers, potentially increasing the risk that they may fail to repay their loans. On 7 November 2017 the Minister of Finance announced that the RBNZ Act will be reviewed and reformed to create a modern monetary and financial policy framework. See "*Regulation and Supervision—Review of the RBNZ Act*" for further discussion. Changes in interest rates and monetary policy are difficult to accurately predict and may have a material adverse effect on the ANZ New Zealand Group's business, operations and financial condition.

Sovereign risk may destabilise global financial markets adversely affecting all participants, including adversely affecting the ANZ New Zealand Group's liquidity, business, operations or 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 nationalise 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 destabilise global financial markets and adversely affect the ANZ New Zealand Group's liquidity, business, operations or financial condition.

An increase in the failure of third parties to honour their commitments in connection with the ANZ New Zealand Group's trading, lending, derivatives and other activities may adversely affect its business, operations and financial condition.

The ANZ New Zealand Group is exposed to the potential risk of credit-related losses that can occur as a result of a counterparty being unable or unwilling to honour its contractual obligations. As with any financial services organisation, the ANZ New Zealand Group assumes counterparty risk in connection with its trading, lending, derivatives, insurance and other businesses where it relies on the ability of a third party (including reinsurers) to satisfy its financial obligations to the ANZ New Zealand Group on a timely basis. The ANZ New Zealand Group is also subject to the risk that its 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 the ANZ New Zealand Group's 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 the ANZ New Zealand Group holds as collateral and the market value of the counterparty instruments and obligations it holds. Credit losses can and have resulted in financial services organisations realising significant losses and in some cases failing altogether.

To the extent the ANZ New Zealand Group's credit exposure increases, the increase could have an adverse effect on the ANZ New Zealand Group's business, operations and financial condition if material unexpected credit losses occur.

The ANZ New Zealand Group is subject to market risk, which may adversely affect its 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 the ANZ New Zealand Group's business, operations and financial condition. For the purposes of financial risk management, the ANZ New Zealand Group differentiates between traded and non-traded market risks. Traded market risks principally arise from the ANZ New Zealand Group's trading operations in interest rates, foreign exchange, commodities and securities. Non-traded market risk is predominantly interest rate risk in ANZ New Zealand's banking book.

The ANZ New Zealand Group is subject to changes in exchange rates, which may adversely affect its reported earnings.

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

Appreciation in the New Zealand dollar relative to other currencies could have an adverse effect on certain portions of the New Zealand economy, including agricultural exports, international tourism, manufacturers, and import-competing producers, which may adversely affect the ANZ New Zealand Group's 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.

The ANZ New Zealand Group is subject to operational risk, which may adversely impact its financial results.

Operational risk is the risk of loss 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.

The ANZ New Zealand Group classifies operational risk into risk event type categories that it believes enables it to measure and compare risks on a consistent basis. Examples of operational risk events according to category are as follows:

- (a) Internal Fraud: associated with employees acting outside their normal employment conditions/procedures to create a financial advantage for themselves or others;
- (b) External Fraud: fraudulent acts or attempts which originate from outside the ANZ 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 employees;
- (d) Loss of key staff or inadequate management of human resources including the Chief Executive Officer and the management team of the Chief Executive Officer;
- (e) Clients, Products and Business Practices: risk of market manipulation, product defects, incorrect advice, money laundering and misuse or unauthorised disclosure of customer information;

- (f) Business Disruption (including systems failures): risk that the ANZ New Zealand Group's banking operating systems are disrupted or fail;
- (g) Damage to Physical Assets: risk that a natural disaster or terrorist or vandalism attack damages the ANZ New Zealand Group's buildings or property; and
- (h) Execution, Delivery and Process Management: risk of losses resulting from, among other things, process errors made by the ANZ New Zealand Group's 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 could adversely affect the ANZ New Zealand Group's financial results. 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.

The ANZ New Zealand Group is subject to reputational risk, which may adversely impact its business, operations and financial condition.

Reputational risk may arise as a result of an external event or the ANZ New Zealand Group's own actions, and adversely affect perceptions about the ANZ New Zealand Group held by the public (including its customers, shareholders, investors, regulators or rating agencies). The impact of a risk event on the ANZ New Zealand Group's reputation may exceed any direct cost of the risk event itself and may adversely impact its business, operations and financial condition.

The ANZ New Zealand Group may incur reputational damage where any of its practices fail to meet evolving community expectations. As these expectations may exceed the standard required in order to comply with applicable law, the ANZ New Zealand Group may incur reputational damage even where it has met its legal obligations. A divergence between community expectations and the ANZ New Zealand Group's practices could arise in a number of ways, including in relation to its product and services disclosure practices, pricing policies and use of data.

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

The ANZ New Zealand Group is subject to contagion and reputational risk, which may have a material impact on its results and financial condition.

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

On 31 May 2018, the Commonwealth Director of Public Prosecutions ("CDPP") in Australia advised ANZBGL that the CDPP intended to commence criminal proceedings against ANZBGL for being knowingly concerned in alleged cartel conduct by the joint lead managers of ANZBGL's underwritten institutional equity placement of approximately 80.8 million ANZBGL ordinary shares in August 2015.

The proceedings, which were commenced in early June 2018, relate to an arrangement or understanding allegedly made between the joint lead managers in relation to the supply of ANZBGL

ordinary shares. The CDDP has also brought criminal proceedings against a senior employee of ANZBGL.

ANZBGL is also co-operating with an investigation by ASIC in relation to the placement. ASIC is investigating whether ANZBGL's announcement on the ASX of 7 August 2015 should have stated that the joint lead managers took up approximately 25.5 million ANZBGL ordinary shares of the placement. This represented approximately 0.91% of total ANZBGL ordinary shares on issue at that time.

As a member of the ANZ Group, any impact on the ANZ Group that arises as a result of the CDDP proceedings or the ASIC investigation, including any negative impact to the ANZ Group's credit ratings, may also adversely affect ANZ New Zealand's credit ratings, liquidity, business, operations, financial condition, reputation and ability to access the capital markets on favourable terms.

The ANZ New Zealand Group may be exposed to conduct-related risks relating to the provision of advice, recommendations or guidance about financial products and services, or behaviours which do not appropriately consider the interests of consumers, the integrity of financial markets and the expectations of the community, in the course of its business activities which may adversely affect the ANZ New Zealand Group's business, operations, financial condition and reputation.

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 ANZ New Zealand Group's policies and standards; and
- trading activities in financial markets, outside of the ANZ New Zealand Group's policies and standards.

The ANZ New Zealand Group is regulated under various legislative regimes in the countries in which it operates 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 authorised 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.

Inappropriate advice about financial products and services may result in material litigation (and associated financial costs) and together with the failure to avoid or manage conflicts of interest and/or inadequate improvement to culture and practices, may expose the ANZ New Zealand Group to regulatory actions, restrictions or conditions on banking licenses and/or reputational consequences, which could adversely affect its business, operations, financial condition and reputation.

For additional information on regulatory actions that could affect the ANZ New Zealand Group (including a recent request from the FMA and the RBNZ for all New Zealand banks to provide an overview of both work undertaken and ongoing work to identify and address conduct and culture risk), see "*Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the ANZ New Zealand Group's business, operations, financial condition and reputation*".

The ANZ New Zealand Group is exposed to insurance risk and potential fluctuations in investment and global securities markets, which may adversely affect its business, operations and financial condition.

Insurance risk is the risk of loss due to unexpected changes in current and future insurance claim rates. The ANZ Group, including OnePath Life NZ, is exposed to insurance risk events. In the life insurance business, insurance risk arises primarily through mortality (death) and morbidity (illness and injury) risks being greater than expected and, in the case of annuity business, should annuitants live longer than expected. If the ANZ New Zealand Group incurs losses due to insurance risk events, such losses may adversely affect its business, operations and financial condition. The ANZ New Zealand Group has agreed to sell OnePath Life NZ to Cigna in 2019, but the sale remains subject to regulatory approval.

The profitability of the ANZ New Zealand Group's funds management and insurance business is affected by changes in investment markets and weaknesses in global securities markets due to credit, liquidity or other problems which could result in a decline in its revenues from its funds management and insurance business.

The ANZ New Zealand Group is exposed to 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), which may adversely affect its 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 the ANZ New Zealand Group, with global tax reporting regimes, including the U.S. Foreign Account Tax Compliance Act ("**FATCA**"), the Organization for Economic Co-operation and Development's ("**OECD**") 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 eliminate the circumvention of global tax reporting regimes and enforcement in the case of non-compliance.

As a global financial institution, the ANZ New Zealand Group operates 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 the ANZ New Zealand Group. This may be coupled with the current increased regulatory scrutiny of global financial institutions (including the ANZ New Zealand Group) 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 the ANZ New Zealand Group.

The scale and complexity of the ANZ Group (including the ANZ New Zealand Group), 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 the ANZ New Zealand Group and its employees. Consequences include fines, criminal and civil penalties, civil claims, reputational harm, competitive disadvantage, loss of business and constraints on doing business. These consequences, individually or collectively, could have an adverse effect on the ANZ New Zealand Group's business, operations, financial condition and reputation.

FATCA requires financial institutions globally to undertake ongoing and extensive customer due diligence 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.

New Zealand has signed an intergovernmental agreement ("**IGA**") with the United States and has enacted legislation to implement its agreement with the United States. For more information, see "*Regulation and Supervision – FATCA*" below.

Where the ANZ New Zealand Group 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 the ANZ New Zealand Group to provide certain information to U.S.

payers (withholding agents, custodians, etc.). The ANZ New Zealand Group 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 have commenced in many countries, for example, Australia, New Zealand, Hong Kong, Japan, Singapore and the United Kingdom. The CRS, though similar to FATCA in spirit, has 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.

The ANZ New Zealand Group is working with the IRD on the steps it needs to take to satisfy the CRS requirements. The ANZ New Zealand Group has 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, the ANZ New Zealand Group has made, and is 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.

The ANZ New Zealand Group may be exposed to the risk of impairment of goodwill and other intangible assets that may adversely affect its 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 31 March 2018, the ANZ New Zealand Group carried a goodwill balance of \$3,230 million (including UDC 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 31 March 2018, the ANZ New Zealand Group carried capitalised software balances and other intangible assets of \$168 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 the ANZ New Zealand Group's results and financial condition.

The ANZ New Zealand Group may experience changes in the valuation of some of its assets and liabilities, resulting in fair value adjustments that may have a material adverse effect on its earnings.

Under NZ IFRS, the ANZ New Zealand Group recognises 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, the ANZ New Zealand Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, fair values are based on 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, judgements 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 the ANZ New Zealand Group's earnings.

Application of and changes to accounting policies may have a material adverse effect on the ANZ New Zealand Group's financial position and results of operations.

The accounting policies and methods that the ANZ New Zealand Group apply are fundamental to how it records and reports its financial position and results of its operations. The accounting policies for the ANZ New Zealand Financial Statements as at and for the six months ended 31 March 2018 and as at and for the years ended 30 September 2017 and 30 September 2016 are set forth in Note 1 to the ANZ New Zealand Unaudited Financial Statements, Full Year Disclosure Statement and the Comparative Disclosure Statement, respectively. Management must exercise judgement in selecting and applying many of these accounting policies and methods so that not only do they comply with generally accepted accounting principles but 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 the ANZ New Zealand Group's financial position and results of operations. In addition, the application of new or revised accounting standards or interpretations could have a material adverse effect on the ANZ New Zealand Group's financial position and results of operations.

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

Litigation and contingent liabilities may adversely affect the ANZ New Zealand Group's business, operations and financial condition.

The ANZ New Zealand Group is subject to litigation, regulatory actions and contingent liabilities, which, if they crystallize, may adversely affect its business, operations and financial condition. While legal advice has been obtained and such provisions as the ANZ New Zealand Group have deemed necessary have been made and disclosed in the ANZ New Zealand Unaudited Financial Statements and the Full Year Disclosure Statement, there is a risk that these contingencies may be larger than anticipated or that additional litigation or other contingent liabilities will arise.

Details regarding ANZ New Zealand's material contingent liabilities as at 31 March 2018, are contained in Note 10 to the ANZ New Zealand Unaudited Financial Statements for the six months ended 31 March 2018.

In recent years, 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.

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 ANZ New Zealand Group's business, operations and financial condition.

The ANZ New Zealand Group's ability to attract and retain suitably qualified and skilled employees is an important factor in achieving its 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, the ANZ New Zealand Group 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 its business, operations and financial condition. For example, the Australian Banking Executive Accountability Regime may impact its ability to attract and retain high-quality senior executives. For more information, see "*Regulation and Supervision—Australian Banking Executive Accountability Regime ("BEAR")*."

Risk factors relating to the Covered Bond Guarantor, including the ability of the Covered Bond Guarantor to fulfil its obligations in relation to the Covered Bond Guarantee

Covered Bond Guarantor is only obliged to pay Guaranteed Amounts when the same are Due for Payment.

Following the occurrence of an Issuer Event of Default, the Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. of the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding or if so directed by an Extraordinary Resolution of the Covered Bondholders shall, serve an Issuer Acceleration Notice on the Relevant Issuer and the Guarantor (in the case of Covered Bonds issued by ANZNIL) to the effect that as against the Issuers and the Guarantor (in the case of Covered Bonds issued by ANZNIL) (but not, for the avoidance of doubt, as against the Covered Bond Guarantor) each Covered Bond shall thereupon immediately become due and repayable at its Early Redemption Amount together with accrued interest.

Upon the Covered Bonds becoming immediately due and repayable against the Issuers and the Guarantor (in the case of Covered Bonds issued by ANZNIL), the Bond Trustee will be required to forthwith serve a Notice to Pay on the Covered Bond Guarantor and the Covered Bond Guarantor will be required to make payments of Guaranteed Amounts when the same shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Following service of a Notice to Pay on the Covered Bond Guarantor, the Covered Bond Guarantor shall pay or procure to be paid on each Scheduled Payment Date to or to the order of the Bond Trustee (for the benefit of Covered Bondholders) an amount equal to those Guaranteed Amounts which shall have become Due for Payment in accordance with the terms of the Bond Trust Deed but which have not been paid by the Relevant Issuer or the Guarantor (in the case of Covered Bonds issued by ANZNIL) provided that no Notice to Pay shall be served on the Covered Bond Guarantor until an Issuer Acceleration Notice has been served by the Bond Trustee on the Issuers and the Guarantor.

All payments of principal and interest (if any) in respect of Covered Bonds by the Covered Bond Guarantor will be made subject to withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges required by law. In the event of a withholding or deduction being made by the Covered Bond Guarantor, the Covered Bond Guarantor will not be obliged to pay any additional amounts as a consequence. If the Covered Bond Guarantor is required by law to pay an amount of approved issuer levy in respect of a payment made by it under the Covered

Bond Guarantee, it may deduct such amount of approved issuer levy from the relevant payment. In addition, the Covered Bond Guarantor will not be obliged at any time to make any payments in respect of additional amounts which may become payable by the Issuers or the Guarantor (in the case of Covered Bonds issued by ANZNIL) under Condition 7 (*Taxation*). Prior to service on the Covered Bond Guarantor of a Covered Bond Guarantee Acceleration Notice, the Covered Bond Guarantor will not be obliged to make payment in respect of any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums, default interest or interest upon interest which may accrue on or in respect of the Covered Bonds.

Subject to any grace period, if the Covered Bond Guarantor fails to make a payment when Due for Payment under the Covered Bond Guarantee or any other Covered Bond Guarantor Event of Default occurs, then the Bond Trustee may, and if so requested in writing by the holders of at least 25 per cent. of the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding or if so directed by an Extraordinary Resolution of all the Covered Bondholders shall, accelerate the obligations of the Covered Bond Guarantor under the Covered Bond Guarantee by service of a Covered Bond Guarantee Acceleration Notice, whereupon the Bond Trustee will have a claim under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount of each Covered Bond, together with accrued interest and all other amounts then due under the Covered Bonds (other than additional amounts payable under Condition 7 (*Taxation*)), although in such circumstances the Covered Bond Guarantor will not be obliged to gross up in respect of any withholding which may be required in respect of any payment. Following service of a Covered Bond Guarantee Acceleration Notice, the Security Trustee may enforce the Security over the Charged Property. Pursuant to the terms of the Security Deed, the proceeds of enforcement and realisation of the Security will be required to be applied by the Security Trustee in accordance with the Post-Enforcement Priority of Payments in the Security Deed, and Covered Bondholders will receive amounts from the Covered Bond Guarantor (if any) on an accelerated basis.

Excess Proceeds received by the Bond Trustee will not be paid to the Covered Bondholders but will be paid to the Covered Bond Guarantor.

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may receive Excess Proceeds. In accordance with the Conditions, the Excess Proceeds will be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the Covered Bond Guarantor for its own account, as soon as practicable, and will be held by the Covered Bond Guarantor in the GIC Account and the Excess Proceeds will thereafter form part of the Security and will be used by the Covered Bond Guarantor in the same manner as all other moneys from time to time standing to the credit of the GIC Account. Any Excess Proceeds received by the Bond Trustee will discharge *pro tanto* the obligations of the Relevant Issuer and the Guarantor (in the case of Covered Bonds issued by ANZNIL) in respect of the Covered Bonds, Receipts and Coupons (subject to restitution of the same if such Excess Proceeds shall be required to be repaid by the Covered Bond Guarantor). However, the obligations of the Covered Bond Guarantor under the Covered Bond Guarantee are (following service of a Covered Bond Guarantee Acceleration Notice) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds will not reduce or discharge any such obligations.

By subscribing for Covered Bonds, each holder of the Covered Bonds will be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the Covered Bond Guarantor for application in the manner as described above.

If a Covered Bond Guarantor Event of Default occurs, the realisation of the Charged Property may not be sufficient to meet the claims of all the Secured Creditors, including the Covered Bondholders.

Following the service of a Notice to Pay on the Covered Bond Guarantor, the Covered Bond Guarantor's ability to meet its obligations under the Covered Bond Guarantee will depend on (a) the realisable value of Selected Housing Loans in the Housing Loan Portfolio, (b) the amount of Housing Loan Revenue Receipts and Housing Loan Principal Receipts generated by the Housing Loan Portfolio and the timing thereof, (c) the amounts received from the Swap Providers, (d) the realisable value of Substitution Assets and Authorised Investments held by it and (e) the receipt by it of credit balances and interest on credit balances on the GIC Account. Recourse against the Covered Bond Guarantor under the Covered Bond Guarantee is limited to the aforementioned assets and the Covered Bond

Guarantor will not have any other source of funds available to meet its obligations under the Covered Bond Guarantee.

If a Covered Bond Guarantor Event of Default occurs and the Security created by or pursuant to the Security Deed is enforced, the realisation of the Charged Property may not be sufficient to meet the claims of all the Secured Creditors, including the Covered Bondholders.

If, following enforcement of the Security constituted by or pursuant to the Security Deed, the Secured Creditors have not received the full amount due to them pursuant to the terms of the Programme Documents, then they may still have an unsecured claim against the Relevant Issuer and the Guarantor (in the case of Covered Bonds issued by ANZNIL) for the shortfall. There is no guarantee that the Issuers or the Guarantor (if applicable) will have sufficient funds to pay that shortfall.

Covered Bondholders should note that the Asset Coverage Test has been structured to ensure that the Adjusted Aggregate Housing Loan Amount is an amount at least equal to the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding, which should reduce the risk of there ever being a shortfall (although there is no assurance of this – in particular, the sale of further Housing Loans and Related Security by the Seller to the Covered Bond Guarantor may be required to avoid or remedy a breach of the Asset Coverage Test).

The Covered Bond Guarantor will be required to ensure that, following the service of a Notice to Pay on the Covered Bond Guarantor (but prior to the service of a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor, the Issuers and the Guarantor and/or the commencement of winding up proceedings against the Trust and/or realisation of the Security), the Amortisation Test is met on each Determination Date. A breach of the Amortisation Test will constitute a Covered Bond Guarantor Event of Default and will entitle the Bond Trustee to serve a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor, the Issuers and the Guarantor.

The Asset Coverage Test, the Amortisation Test, the Interest Rate Shortfall Test, the Yield Shortfall Test and the Pre-Maturity Test have in the aggregate been structured to ensure that the Asset Pool is sufficient to pay amounts due on the Covered Bonds and senior expenses (which will include costs relating to the maintenance, administration and winding up of the Asset Pool whilst the Covered Bonds are outstanding). However, no assurance can be given that the Asset Pool will in fact generate sufficient amounts for such purposes (see "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test*", "*Credit Structure – Asset Coverage Test*", "*Summary of Principal Documents – Establishment Deed – Amortisation Test*", "*Credit Structure – Amortisation Test*", "*Summary of the Principal Documents – Servicing Agreement – Interest Rate Shortfall Test and Yield Shortfall Test*", "*Summary of the Principal Documents – Establishment Deed – Pre-Maturity Test*" and "*Credit Structure – Pre-Maturity Test*").

If any third party on whom the Covered Bond Guarantor relies to perform services fails to perform its obligations, the ability of the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee may be adversely affected.

The Covered Bond Guarantor has entered into agreements with a number of third parties, which have agreed to perform services for the Covered Bond Guarantor. In particular, but without limitation:

- the Servicer has been appointed to administer and service the Housing Loans in the Housing Loan Portfolio on behalf of the Covered Bond Guarantor and to provide certain other administration and management services to the Covered Bond Guarantor pursuant to the provisions of the Servicing Agreement;
- the Trust Manager has been appointed to provide the administration and cash management services set out in the Programme Documents including, without limitation, assisting the Covered Bond Guarantor in operating the Trust Accounts, keeping and maintaining records, causing annual accounts of the Trust to be audited and directing the Covered Bond Guarantor in relation to investing moneys standing to the credit of the GIC Account in Substitution Assets or Authorised Investments;
- the Calculation Manager has been appointed to provide the Calculation Management Services and Asset Registry Services set out in the Programme Documents including, without

limitation, doing all calculations on each Determination Date which are required to determine whether the Housing Loan Portfolio is in compliance with the Asset Coverage Test or the Amortisation Test, as the case may be, establishing and maintaining an up-to-date Asset Register and providing information to the Asset Monitor;

- the Asset Monitor has been appointed to report on the accuracy of the Calculation Manager's calculations, the maintenance of the Asset Register and compliance with the procedures and internal controls for ensuring the Asset Register is kept up-to-date and accurate and that the Asset Pool remains consistent with any Asset Class Designation; and
- the Account Bank has been appointed to operate each of the Trust Accounts in accordance with the relevant account bank mandate pursuant to the Account Bank Agreement.

In the event that any of those third parties fails to perform its obligations under the relevant agreement to which it is a party, the realisable value of the Housing Loan Portfolio and other assets in the Asset Pool or any part thereof or pending such realisation (if the Housing Loan Portfolio and other assets in the Asset Pool or any part thereof cannot be sold) the ability of the Covered Bond Guarantor to make payments under the Covered Bond Guarantee may be affected. For example, if the Servicer fails to adequately administer the Housing Loans in the Housing Loan Portfolio, this may lead to higher incidences of non-payment or default by Borrowers.

The Covered Bond Guarantor will also be reliant on the Swap Providers to provide it with the funds sufficient to meet its obligations under the Intercompany Loan Agreement, the Demand Loan Agreement and the Covered Bond Guarantee, as described below.

If a Servicer Termination Event occurs, then the Covered Bond Guarantor, or the Trust Manager on its behalf (with the consent of the Security Trustee) or the Security Trustee may (acting on the direction of (if there are Covered Bonds outstanding) the Bond Trustee or (if there are no Covered Bonds outstanding) the Majority Secured Creditors) terminate the appointment of the Servicer. Following such termination of the appointment of the Servicer, the Covered Bond Guarantor (with the prior consent of the Security Trustee) shall use its reasonable endeavours to appoint a substitute servicer. Any termination of the appointment of the Servicer and the appointment of a substitute servicer is conditional upon the Trust Manager having delivered a Rating Affirmation Notice to the Covered Bond Guarantor, the Seller, the Servicer and the substitute servicer in respect of such termination and appointment. There can be no assurance that either (a) a substitute servicer with sufficient experience of administering mortgages of residential properties would be found who would be willing and able to service the Housing Loans in the Housing Loan Portfolio on the terms of the Servicing Agreement, or (b) that a Rating Affirmation Notice could be delivered by the Trust Manager in respect of such substitute servicer.

The ability of a replacement servicer to perform fully the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a replacement servicer may affect payments on the Housing Loans in the Housing Loan Portfolio, the realisable value of such Housing Loans and/or the ability of the Covered Bond Guarantor to make payments under the Covered Bond Guarantee.

The Servicer has no obligation itself to advance payments that Borrowers fail to make in a timely fashion. Covered Bondholders will have no right to consent to or approve of any actions taken by the Servicer under the Servicing Agreement.

The Servicer is required to act as collecting agent for the Covered Bond Guarantor in respect of all payments in respect of the Housing Loans in the Housing Loan Portfolio (including, without limitation, a Housing Loan Scheduled Payment). If the Servicer receives, during a Collection Period, any money whatsoever arising from the Housing Loans in the Housing Loan Portfolio and the Related Security which money belongs to the Covered Bond Guarantor and such money is to be paid to the GIC Account pursuant to the Servicing Agreement, the Servicer shall hold such money on trust for the Covered Bond Guarantor. The Servicer is entitled to commingle such money with any other money held by it. In the event of an insolvency of the Servicer, the ability of the Covered Bond Guarantor to trace and recover any such commingled money may be impaired. The risk of the Servicer not making payment on each Trust Payment Date immediately following the end of a Collection Period is mitigated by an obligation of the Servicer to transfer the collections into the GIC Account within two

Local Business Days of receipt if the Servicer's short-term credit ratings are downgraded to below P-1 (by Moody's) or F1 (by Fitch) or its long-term credit rating is downgraded to below A (Fitch).

Neither the Security Trustee nor the Bond Trustee is obliged in any circumstances to act as a Servicer or to monitor the performance by the Servicer of its obligations.

If a Trust Manager Termination Event occurs, then the Covered Bond Guarantor and/or the Security Trustee may terminate the appointment of the Trust Manager. The Covered Bond Guarantor will be required to use its reasonable endeavours to appoint a substitute trust manager. There can be no assurance that a substitute trust manager would be found who would be willing and able to provide such trust management services on the terms of the Establishment Deed and the Management Agreement. Neither the Security Trustee nor the Bond Trustee will be obliged in any circumstances to act as a Trust Manager or to monitor or supervise the performance by the Trust Manager (or any replacement trust manager) of its obligations.

If a Calculation Manager Termination Event occurs, then the Covered Bond Guarantor, or the Trust Manager on its behalf (with the consent of the Security Trustee (acting on the direction of (if there are Covered Bonds outstanding) the Bond Trustee or (if there are no Covered Bonds outstanding) the Majority Secured Creditors)) may terminate the appointment of the Calculation Manager. The Covered Bond Guarantor will be required to use its reasonable endeavours to appoint a substitute calculation manager. There can be no assurance that a substitute calculation manager would be found who would be willing and able to provide the Calculation Management Services or Asset Registry Services on the terms of the Establishment Deed and the Management Agreement. Neither the Covered Bond Guarantor nor the Security Trustee shall have any liability to any person in the event that, having used reasonable endeavours, the Covered Bond Guarantor is unable to appoint a substitute trust manager or substitute calculation manager, as the case may be. Until the appointment of a substitute trust manager or substitute calculation manager is made, the Covered Bond Guarantor shall, subject to the Management Agreement and any approval required by law, perform the duties of the Trust Manager or the Calculation Manager (as the case may be) and be entitled to the relevant fees. Neither the Security Trustee nor the Bond Trustee will be obliged in any circumstances to act as the Calculation Manager or to monitor or supervise the performance by the Calculation Manager (or any substitute calculation manager) of its obligations.

Any delay or inability to appoint a substitute trust manager or calculation manager may affect payments to and from the Transaction Accounts in accordance with the terms of the Programme Documents, and/or the provision of the asset coverage reports and other information to, *inter alia*, the Rating Agencies, the Security Trustee and the Covered Bond Guarantor and/or the maintenance of the Asset Registry and may ultimately affect the ability of the Covered Bond Guarantor to make payments under the Covered Bond Guarantee.

The Trust Manager has no obligation itself to advance payments that Borrowers fail to make in a timely fashion. Covered Bondholders will have no right to consent to or approve of any actions taken by the Trust Manager under the Establishment Deed or the Management Agreement.

The ratings of the Covered Bonds or the ability of the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee may be adversely affected if any of the third parties on whom the Covered Bond Guarantor relies to perform services ceases to satisfy any required criteria, such as minimum credit ratings.

The parties to the Programme Documents who receive and hold moneys pursuant to the terms of such documents (such as the Servicer and the Account Bank) will be required to satisfy certain criteria in order to continue to receive and hold such moneys. These criteria will include requirements in relation to the short-term and/or long-term, unguaranteed and unsecured credit ratings ascribed to such party by Fitch and Moody's.

If the party concerned ceases to satisfy the applicable criteria, including such credit ratings criteria, then the rights and obligations of that party (including the right or obligation to receive moneys on behalf of the Covered Bond Guarantor) may be required to be transferred to another entity which does satisfy the applicable criteria. If the rights and obligations of that counterparty are transferred to another entity, then the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the Programme Documents. There is no guarantee that a

replacement counterparty could be found. The occurrence of either of these factors may adversely affect the ratings assigned to the Covered Bonds or the ability of the Covered Bond Guarantor to make payments under the Covered Bond Guarantee.

In addition, should the applicable criteria cease to be satisfied, then the parties to the relevant Programme Document may agree to amend or waive certain of the terms of such document, including the applicable criteria, in order to avoid the need for a replacement entity to be appointed. The consent of Covered Bondholders may not be required in relation to such amendments and/or waivers.

Swap Agreements entered into by the Covered Bond Guarantor to hedge against interest rate, currency and other risks may be terminated in certain circumstances, which may adversely affect the Covered Bond Guarantor's ability to meet its obligations under the Covered Bond Guarantee.

In order to hedge certain interest rate, currency or other risks in respect of amounts received by the Covered Bond Guarantor under the Housing Loans and amounts payable by the Covered Bond Guarantor under the Intercompany Loan Agreement and/or the Demand Loan Agreement to ANZ New Zealand and/or amounts payable by the Covered Bond Guarantor under the Covered Bond Guarantee to Covered Bondholders in respect of the Covered Bonds on issue, the Covered Bond Guarantor will enter into certain swap transactions with swap providers (each, a "**Swap Provider**").

If the Covered Bond Guarantor fails to make timely payments of amounts due under any Swap Agreement in circumstances when sufficient funds had been made available to the Covered Bond Guarantor for that purpose in accordance with the applicable Priority of Payments, then it will have defaulted under that Swap Agreement and such Swap Agreement may be terminated. Further, a Covered Bond Swap Provider is only obliged to make payments to the Covered Bond Guarantor if the Covered Bond Guarantor has not defaulted under the relevant Covered Bond Swap Agreement. If a Swap Agreement terminates or the relevant Swap Provider is not obliged to make payments or if it defaults in its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the Covered Bond Guarantor on the relevant payment date under such Swap Agreement, the Covered Bond Guarantor will be exposed to changes in the relevant currency exchange rates to NZ dollars (where relevant) and to any changes in the relevant rates of interest. Unless a replacement swap is entered into, the Covered Bond Guarantor may have insufficient funds to make payments under the Intercompany Loan Agreement, the Demand Loan Agreement or the Covered Bond Guarantee.

If a Swap Agreement terminates, then the Covered Bond Guarantor may be obliged to make a termination payment to the relevant Swap Provider. There can be no assurance that the Covered Bond Guarantor will have sufficient funds available to make a termination payment under the relevant Swap Agreement or to make any upfront payment required by a replacement swap counterparty, nor can there be any assurance that the Covered Bond Guarantor will be able to find a replacement swap counterparty which has both sufficiently high credit ratings as may be required by any of the Rating Agencies and which agrees to enter into a replacement swap agreement on similar commercial terms.

If the Covered Bond Guarantor is obliged to pay a termination payment under any Swap Agreement, any such termination payment in respect of:

- the Interest Rate Swap will rank ahead of amounts due on the Covered Bonds; and
- the Covered Bond Swap will rank *pari passu* with amounts due on the Covered Bonds,

except where default by the relevant Swap Provider has caused the relevant Swap Agreement to terminate.

The obligation to pay a termination payment may adversely affect the ability of the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee.

Differences in timings of obligations of the Covered Bond Guarantor and the Covered Bond Swap Provider under the Covered Bond Swaps may adversely affect the Covered Bond Guarantor's ability to meet its obligations under the Covered Bond Guarantee.

Subject to the terms of the relevant Covered Bond Swap Agreement, the Covered Bond Guarantor may be required, following service of a Notice to Pay on the Covered Bond Guarantor, to pay or provide for

payment of an amount to each corresponding Covered Bond Swap Provider on a monthly basis. The Covered Bond Swap Provider may not be obliged to make corresponding swap payments to the Covered Bond Guarantor under a Covered Bond Swap until amounts are Due for Payment under the Covered Bond Guarantee. In such circumstances, if a Covered Bond Swap Provider does not meet its payment obligations to the Covered Bond Guarantor under the Covered Bond Swap Agreement or such Covered Bond Swap Provider does not make a termination payment that has become due from it to the Covered Bond Guarantor under the Covered Bond Swap Agreement, the Covered Bond Guarantor may have a larger shortfall in funds with which to make payments under the Covered Bond Guarantee with respect to the Covered Bonds than if the Covered Bond Swap Provider's payment obligations coincided with the Covered Bond Guarantor's payment obligations under the Covered Bond Swap. Hence, the difference in timing between the obligations of the Covered Bond Guarantor and the obligations of the Covered Bond Swap Providers under the Covered Bond Swaps may adversely affect the Covered Bond Guarantor's ability to meet its obligations under the Covered Bond Guarantee.

There is uncertainty as to the validity of subordination provisions upon the occurrence of insolvency proceedings.

There is some uncertainty as to the validity and/or enforceability of a provision which (based on contractual and/or trust principles) subordinates certain payment rights of a creditor to the payment rights of other creditors of its counterparty upon the occurrence of insolvency proceedings relating to that creditor (the so-called "**flip clause**"). In particular, recent cases have focused on provisions involving the subordination of a hedging counterparty's payment rights in respect of certain termination payments upon the occurrence of insolvency proceedings on the part of such counterparty. Such provisions are similar in effect to the terms which are included in the Programme Documents (in particular the Establishment Deed and the Security Deed) relating to the subordination of Excluded Swap Termination Amounts.

The Supreme Court of the United Kingdom has affirmed that a subordination provision of similar effect is valid under English law: *Belmont Park Investments Pty Limited v BNY Corporate Trustee Services Ltd and Lehman Brothers Special Financing Inc* [2011] UKSC 38. It is likely that, based on the principles applied in the Belmont decision, a New Zealand court would consider such a subordination provision to be valid under New Zealand law.

It is noted that in 2010 the U.S. Bankruptcy Court held in a related proceeding to the Belmont decision that such a subordination provision is unenforceable under U.S. bankruptcy law and that any action to enforce such provision would violate the automatic stay which applies under such law in the case of a U.S. bankruptcy of the counterparty. However, in 2016, Judge Chapman of the U.S. Bankruptcy Court in relation to a different matter held that such a subordination provision can be enforceable. In March 2018, the U.S. District Court for the Southern District of New York upheld Judge Chapman's decision. An appeal against the 2018 U.S. District Court decision has since been filed, however that appeal has not yet been heard or decided. In the interim, the 2018 decision provides comfort that flip clauses will be captured by the safe harbour provisions protecting a swap participant's rights under a swap transaction under the U.S. Bankruptcy Code. The implications of these conflicting judgments of the Supreme Court of the United Kingdom and the U.S. Bankruptcy Court may not be settled until any right of appeal against the 2018 U.S. District Court decision has been exhausted and the position in the United States is resolved.

If a Swap Provider becomes subject to insolvency proceedings in any jurisdiction outside England and Wales or New Zealand, and it is owed a payment by the Covered Bond Guarantor, a question arises as to whether the insolvent creditor or any insolvency official appointed in respect of that creditor could successfully challenge the validity and/or enforceability of the provisions of the relevant Priority of Payments which refer to the ranking of the Swap Providers' payment rights in respect of Excluded Swap Termination Amounts. In particular, based on the decision of the U.S. Bankruptcy Court referred to above, there is a risk that such subordination provisions would not be upheld under U.S. bankruptcy laws. Such laws may be relevant in certain circumstances with respect to a range of entities which may act as Swap Provider, including U.S. established entities and certain non-U.S. established entities with assets or operations in the U.S. (although the scope of any such proceedings may be limited if the relevant non-U.S. entity is a bank with a licensed branch in a U.S. state). Currently ANZ New Zealand is the only Swap Provider.

Lastly, given the general relevance of the issues under discussion in the judgments referred to above and that the Programme Documents will include terms providing for the subordination of Excluded Swap Termination Amounts, there is a risk that the final outcome of the dispute in such judgments (including any recognition action by the English courts or New Zealand courts) may result in negative rating pressure in respect of the Covered Bonds. If any rating assigned to the Covered Bonds is lowered, the market value of the Covered Bonds may decline.

If a subordination provision included in the Programme Documents was successfully challenged under the insolvency laws of any relevant jurisdiction outside New Zealand, it is not clear whether the relevant foreign judgment or order would be recognised by the courts in New Zealand. The New Zealand courts would be unlikely to apply a law other than the law of New Zealand to the priority of distribution in respect of Excluded Swap Termination Amounts under the Establishment Deed.

The Housing Loan Portfolio will frequently change and therefore detailed statistics or information in relation to the Housing Loans in the Housing Loan Portfolio may not be available to Covered Bondholders.

Detailed statistics or information in relation to the Housing Loans in the Housing Loan Portfolio may not be available to Covered Bondholders because it is expected that the constitution of the Housing Loan Portfolio will frequently change due to, for instance:

- the Seller selling additional Housing Loans and the Related Security (or Housing Loans of New Product Types and the Related Security) to the Covered Bond Guarantor;
- payments by the Borrowers on those Housing Loans; and
- the Seller repurchasing Housing Loans and the Related Security in accordance with the Mortgage Sale Agreement, in particular, in relation to non-compliance with the Representations and Warranties and in the case of a Further Advance, Cash Redraw or Product Switch which the Covered Bond Guarantor has not agreed may remain in the Housing Loan Portfolio (see "*Summary of the Principal Documents – The Mortgage Sale Agreement – Repurchase by the Seller*").

There is no assurance that the characteristics of the New Housing Loans sold to the Covered Bond Guarantor on any Transfer Date will be the same as those of the other Housing Loans in the Housing Loan Portfolio as at the relevant Transfer Date. However, each Housing Loan sold to the Covered Bond Guarantor will be required to be a Qualifying Housing Loan and the Seller will also be required to make the Representations and Warranties set out in the Mortgage Sale Agreement on such date (see "*Summary of the Principal Documents – Mortgage Sale Agreement – Sale by the Seller of Housing Loans and Related Security*") (although the criteria for Qualifying Housing Loans and Representations and Warranties may change in certain circumstances (see "*The Bond Trustee and the Security Trustee may agree to modifications to the Programme Documents without, respectively, the Covered Bondholders' or Secured Creditors' prior consent*"). In addition, the Asset Coverage Test is intended to ensure that on each Determination Date the Adjusted Aggregate Housing Loan Amount is an amount at least equal to the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding and the Calculation Manager will provide monthly reports that will set out certain information in relation to the Asset Coverage Test.

The Servicing Procedures may be amended or revised by ANZ New Zealand from time to time. If any Housing Loans have been originated under amended or revised Servicing Procedures and the Housing Loans are then sold to the Covered Bond Guarantor in accordance with and pursuant to the terms of the Mortgage Sale Agreement, the characteristics of the Housing Loan Portfolio could at such time change. This could adversely affect the ability of the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee.

The Portfolio is required to be maintained in compliance with the Asset Coverage Test and Amortisation Test and the Asset Monitor will test the accuracy of the calculations, and there is no assurance that the Asset Coverage Test or the Amortisation Test will not be breached.

Asset Coverage Test

The Asset Coverage Test is intended to test the asset coverage of the Covered Bond Guarantor's assets in respect of the Covered Bonds on a monthly basis. This is to ensure that the assets of the Covered Bond Guarantor do not fall below a certain threshold and are sufficient for the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee and senior expenses which rank in priority or *pari passu* with amounts due on the Covered Bonds. Pursuant to the terms of the Mortgage Sale Agreement, the Seller has agreed to use all reasonable endeavours to offer to sell sufficient New Housing Loans and the Related Security to the Covered Bond Guarantor in order to ensure that the Housing Loan Portfolio is in compliance with the Asset Coverage Test, provided that the Seller shall not be obliged to sell to the Covered Bond Guarantor, and the Covered Bond Guarantor shall not be obliged to acquire, New Housing Loans and the Related Security if in the reasonable opinion of the Seller the sale to the Covered Bond Guarantor of such New Housing Loans and the Related Security would materially adversely affect the business or financial condition of the Seller. The consideration payable to the Seller for the sale of such Housing Loans and Related Security to the Covered Bond Guarantor to rectify a breach of the Asset Coverage Test will be funded by a drawing under the Demand Loan Agreement.

Alternatively, the Covered Bond Guarantor may purchase Substitution Assets or request drawings under the Demand Loan Agreement in order to ensure that the Covered Bond Guarantor is in compliance with the Asset Coverage Test. If the Asset Coverage Test is not complied with on a Determination Date and also on the next following Determination Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the Covered Bond Guarantor (subject to the Bond Trustee having actual knowledge or express notice of the breach). The Bond Trustee shall be deemed to revoke an Asset Coverage Test Breach Notice if, on the next Determination Date to occur following the service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor a Covered Bond Guarantee Acceleration Notice has been served. If the Bond Trustee is deemed to revoke an Asset Coverage Test Breach Notice, the Covered Bond Guarantor (or the Trust Manager on its behalf) shall immediately notify in writing the Bond Trustee thereof. If the Asset Coverage Test Breach Notice is not revoked by the Bond Trustee on or before the next Determination Date, then an Issuer Event of Default will occur.

Amortisation Test

The Amortisation Test is intended to ensure that, following service of a Notice to Pay, the assets of the Covered Bond Guarantor do not fall below a certain threshold to ensure that the assets of the Covered Bond Guarantor are sufficient to meet its obligations under the Covered Bond Guarantee and senior expenses which rank in priority or *pari passu* with amounts due on the Covered Bonds. Pursuant to the Establishment Deed, the Covered Bond Guarantor must ensure that on each Determination Date following service of a Notice to Pay on the Covered Bond Guarantor but prior to the enforcement of the Security in accordance with the Security Deed, the Amortisation Test Aggregate Housing Loan Amount is in an amount at least equal to the NZ dollar Equivalent of the aggregate Principal Amount Outstanding under the Covered Bonds.

If the aggregate collateral value of the Housing Loan Portfolio has not been maintained in accordance with the terms of the Amortisation Test, then that may affect the realisable value of the Housing Loan Portfolio or any part thereof (both before and after the occurrence of a Covered Bond Guarantor Event of Default) and/or the ability of the Covered Bond Guarantor to make payments under the Covered Bond Guarantee. Failure to satisfy the Amortisation Test on any Determination Date following an Issuer Event of Default and service of a Notice to Pay on the Covered Bond Guarantor will constitute a Covered Bond Guarantor Event of Default, thereby entitling the Bond Trustee to accelerate the Covered Bond Guarantor's obligations under the Covered Bond Guarantee against the Covered Bond Guarantor subject to and in accordance with the Conditions.

Asset Monitor to test calculations

Prior to service of a Notice to Pay, the Asset Monitor will, subject to receipt of the relevant information from the Calculation Manager, test the arithmetic accuracy of the calculations performed by the Calculation Manager in relation to the Asset Coverage Test once each year on the Determination Date immediately preceding an anniversary of the Programme Date. If and for so long as the long-term unsecured, unguaranteed and unsubordinated debt obligation credit ratings of the Calculation Manager (or if the Calculation Manager is not so rated, if the long-term unsecured, unguaranteed and unsubordinated debt obligation credit ratings of the Calculation Manager's holding company) fall

below Baa3 by Moody's or BBB- by Fitch (and for as long as they remain below such credit ratings), the Asset Monitor shall conduct the tests of the Calculation Manager's calculations in respect of every Determination Date thereafter.

Following the service of a Notice to Pay but prior to the occurrence of a Covered Bond Guarantor Event of Default and service of a Covered Bond Guarantee Acceleration Notice, the Asset Monitor will, subject to receipt of the relevant information from the Calculation Manager, test the calculations performed by the Calculation Manager in respect of the Amortisation Test.

See further "*Summary of the Principal Documents – Asset Monitor Agreement*".

The Security Trustee shall not be responsible for monitoring compliance with, nor the monitoring of, the Asset Coverage Test or the Amortisation Test or any other test, or supervising the performance by any other party of its obligations under any Programme Document.

The RBNZ regulatory limit on Covered Bonds could constrain the ability of the Seller to sell Housing Loans to the Covered Bond Guarantor, which may adversely affect the Covered Bond Guarantor's ability to comply with its obligations under the Programme.

The RBNZ imposes a regulatory limit on the issuance of covered bonds by New Zealand banks. Under Conditions of Registration imposed on ANZ New Zealand, no more than 10 per cent. of its total assets may be beneficially owned by a special purpose vehicle for the purpose of guaranteeing covered bonds (see "Regulation and Supervision" for the full text of this Condition of Registration). At the date of this Prospectus, the limit is unchanged. This regulatory limit could constrain the ability of the Seller to sell Housing Loans to the Covered Bond Guarantor which may adversely affect the Covered Bond Guarantor's ability to comply with its obligations under the Programme.

There is no guarantee the Covered Bond Guarantor will find a buyer or assurance as to the price which may be able to be obtained if the Covered Bond Guarantor is required to sell Selected Housing Loans and the Related Security following the service of a Notice to Pay, and the failure of the Covered Bond Guarantor to do so may adversely affect the ability of the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee.

Following the Demand Loan Provider making demand that the Demand Loan (or part of it) be repaid (subject to the Asset Coverage Test being met) or the service of an Asset Coverage Test Breach Notice on the Covered Bond Guarantor or a breach of the Pre-Maturity Test or the service of a Notice to Pay on the Covered Bond Guarantor, but prior to service of a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor, the Issuers and the Guarantor and/or the commencement of winding up proceedings against the Trust and/or the realisation of the Security, the Covered Bond Guarantor, or the Trust Manager on its behalf, shall sell Selected Housing Loans (selected on a basis that is representative of the Housing Loans in the Housing Loan Portfolio as a whole), and if a Housing Loan is selected for sale, its Related Security is also selected, unless the Related Security also secures a Housing Loan in the Housing Loan Portfolio that is not also a Selected Housing Loan. The proceeds from any such sale shall be deposited into the GIC Account and applied in accordance with the applicable Priority of Payments (see "*Summary of the Principal Documents – Establishment Deed – Sale of Selected Housing Loans*").

There is no guarantee the Covered Bond Guarantor will, where the Covered Bond Guarantor is obliged to sell Selected Housing Loans, find a buyer to buy Selected Housing Loans and the Related Security at the times required and there can be no guarantee or assurance as to the price which may be able to be obtained, which may adversely affect the ability of the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee. The Covered Bond Guarantor will offer the Selected Housing Loans and the Related Security for the best price reasonably available but in any event, following the service of an Asset Coverage Test Breach Notice (but prior to the service of a Notice to Pay), the Selected Housing Loans may not be sold by the Covered Bond Guarantor for an amount less than the Current Principal Balance of the Selected Housing Loans plus the arrears of interest and accrued interest thereon. Following a breach of the Pre-Maturity Test or service of a Notice to Pay on the Covered Bond Guarantor, the Selected Housing Loans may not be sold by the Covered Bond Guarantor for an amount less than the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds. However, if the Selected Housing Loans have not been sold (in whole or in part) by the date which is six months prior to either (a) the Final Maturity Date in respect of the Earliest Maturing

Covered Bonds, or (b) the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, or (c) in respect of a sale in connection with the Pre-Maturity Test, the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds, the Covered Bond Guarantor, or the Trust Manager on its behalf, will offer the Selected Housing Loans and the Related Security for sale for the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

If Selected Housing Loans and the Related Security are not sold for an amount equal to or in excess of the Adjusted Required Redemption Amount, the Covered Bond Guarantor may have insufficient funds available to make payment in respect of the Covered Bonds.

On each Trust Payment Date the Covered Bond Guarantor will apply Available Revenue Receipts and Available Principal Receipts to redeem or repay in part the relevant Series of Covered Bonds, to the extent that the Covered Bond Guarantor has sufficient moneys available to make such payments in accordance with the Guarantee Priority of Payments. Available Revenue Receipts will include, among other things, the sale proceeds of Selected Housing Loans and the Related Security to the extent that such proceeds comprise Accrued Interest or Arrears of Interest (if any) that have been, or are to be, on the immediately following Trust Payment Date, credited to the Revenue Ledger on the GIC Account. Available Principal Receipts will include the sale proceeds of Selected Housing Loans and the Related Security and all principal repayments received on the Housing Loans in the Housing Loan Portfolio generally. This may adversely affect repayment of later maturing Series of Covered Bonds if the Selected Housing Loans and the Related Security sold to redeem or repay in part an earlier maturing Series of Covered Bonds are sold for less than the Adjusted Required Redemption Amount and accordingly the Covered Bond Guarantor is required to apply other assets in the Housing Loan Portfolio (such as Housing Loan Principal Receipts) to redeem that earlier maturing Series of Covered Bonds.

The Covered Bond Guarantor will be obliged to sell Selected Housing Loans and the Related Security if the Pre-Maturity Test is breached, and there is no guarantee the Covered Bond Guarantor will find a buyer or assurance as to the price which may be obtained and this may adversely affect the ability of the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee.

The Establishment Deed provides for the sale of Selected Housing Loans and the Related Security in circumstances where the Pre-Maturity Test has been breached in relation to a Series of Hard Bullet Covered Bonds. The Pre-Maturity Test will be breached in relation to a Series of Hard Bullet Covered Bonds if ANZ New Zealand's short-term credit rating from Moody's falls to P-2 (or lower) or from Fitch falls to F1 (or lower) during the period commencing on the day 12 months prior to the Final Maturity Date of the Series of Hard Bullet Covered Bonds. If the Pre-Maturity Test is breached, the Covered Bond Guarantor will, subject to first utilising the proceeds of any advance made by the Demand Loan Provider under the Demand Loan Agreement, be obliged to sell Selected Housing Loans and the Related Security in order to enable the Covered Bond Guarantor to pay the NZ dollar Equivalent of the Required Redemption Amount on each affected Series of Hard Bullet Covered Bonds under the Covered Bond Guarantee. In the event that the Pre-Maturity Test is breached in respect of any Series of Hard Bullet Covered Bonds during the Pre-Maturity Test Period and the amount standing to the credit of the Pre-Maturity Ledger of the GIC Account is less than the NZ dollar Equivalent of the Required Redemption Amount for each Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test has been breached by a specified time, an Issuer Event of Default will occur.

There is no guarantee that a suitable buyer will be found to acquire Selected Housing Loans and the Related Security at the times required, and there can be no guarantee or assurance as to the price which the Covered Bond Guarantor may be able to obtain, which may affect payments under the Covered Bond Guarantee.

There is no guarantee that the proceeds of a realisation of the Charged Property following the occurrence of a Covered Bond Guarantor Event of Default and/or the commencement of winding up proceedings against the Covered Bond Guarantor would be sufficient to repay all amounts due to the Secured Creditors (including Covered Bondholders).

If a Covered Bond Guarantor Event of Default occurs and a Covered Bond Guarantee Acceleration Notice is served on the Covered Bond Guarantor, the Issuers and the Guarantor, then the Security

Trustee will be entitled to enforce the Security created under and pursuant to the Security Deed and the proceeds from the realisation of the Charged Property will be applied by the Security Trustee towards payment of all secured obligations in accordance with the Post-Enforcement Priority of Payments described in "Cashflows" below.

There is no guarantee that the proceeds of realisation of the Charged Property will be in an amount sufficient to repay all amounts due to the Secured Creditors (including the Covered Bondholders) under the Covered Bonds and the Programme Documents.

If a Covered Bond Guarantee Acceleration Notice is served on the Covered Bond Guarantor, the Issuers and the Guarantor, then the Covered Bonds may be repaid sooner or later than expected or not at all.

Factors that may affect the realisable value of the Housing Loan Portfolio or any part thereof or the ability of the Covered Bond Guarantor to make payments under the Covered Bond Guarantee.

Following the occurrence of an Issuer Event of Default, the service on the Issuers, the Guarantor and the Covered Bond Guarantor of an Issuer Acceleration Notice and the service on the Covered Bond Guarantor of a Notice to Pay, the realisable value of Selected Housing Loans and the Related Security comprising the Housing Loan Portfolio may be reduced (which may affect the ability of the Covered Bond Guarantor to make payments under the Covered Bond Guarantee) by:

- representations or warranties not being given by the Covered Bond Guarantor or the Seller unless expressly agreed by the Security Trustee or otherwise agreed with the Seller;
- default by Borrowers of amounts due on their Housing Loans;
- changes to the Servicing Procedures of the Seller;
- the Covered Bond Guarantor not having legal title to the Housing Loans in the Housing Loan Portfolio;
- risks in relation to some types of Housing Loans which may adversely affect the value of the Housing Loan Portfolio or any part thereof;
- changes in interest rates which may adversely affect the value of fixed rate Housing Loans;
- limited recourse to the Seller;
- possible regulatory changes by the Commerce Commission in New Zealand and other regulatory authorities;
- regulations in New Zealand that could lead to some terms of the Housing Loans being unenforceable;
- restrictions on the disposal of All Moneys Mortgages which are subject to an All Moneys Mortgage Trust (see "Summary of the Principal Documents – Mortgage Sale Agreement – All Moneys Mortgage Trust"); and
- other issues which impact on the enforceability of the Housing Loans.

Some of these factors are considered in more detail below. However, it should be noted that the Asset Coverage Test, the Amortisation Test and the criteria for Qualifying Housing Loans are intended to ensure that there will be an adequate amount of Housing Loans in the Housing Loan Portfolio and moneys standing to the credit of the GIC Account to enable the Covered Bond Guarantor to repay the Covered Bonds following an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuers, the Guarantor and the Covered Bond Guarantor and service of a Notice to Pay on the Covered Bond Guarantor and accordingly it is expected (but there is no assurance) that Selected Housing Loans and the Related Security could be realised for sufficient values to enable the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee.

No representations or warranties will be given by the Covered Bond Guarantor or the Seller if the Covered Bond Guarantor is required to sell Selected Housing Loans and the Related Security, and such lack of representations and warranties may adversely affect the realisable value of the assets and accordingly the ability of the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee.

Following a breach of the Pre-Maturity Test and/or the occurrence of an Issuer Event of Default, service on the Issuers, the Guarantor and the Covered Bond Guarantor of an Issuer Acceleration Notice and service on the Covered Bond Guarantor of a Notice to Pay (but prior to the service of a Covered Bond Guarantee Acceleration Notice and/or the realisation of the Security and/or the commencement of winding up proceedings against the Trust), the Covered Bond Guarantor will be obliged to sell Selected Housing Loans and the Related Security to purchasers, subject to a right of pre-emption enjoyed by the Seller pursuant to the terms of the Mortgage Sale Agreement (see "*Summary of the Principal Documents – Establishment Deed – Method of Sale of Selected Housing Loans and the Related Security*"). In respect of any sale of Selected Housing Loans and the Related Security to third parties, however, the Covered Bond Guarantor will not be permitted to give representations or warranties in respect of those Selected Housing Loans and the Related Security (unless expressly agreed by the Security Trustee or otherwise agreed with the Seller). There is no assurance that the Seller would give any warranties or representations in respect of the Selected Housing Loans and the Related Security. Any Representations or Warranties previously given by the Seller in respect of the Housing Loans in the Housing Loan Portfolio may not have value for a third party purchaser if the Seller is then insolvent. Accordingly, there is a risk that the realisable value of the Selected Housing Loans and the Related Security could be adversely affected by the lack of representations and warranties which in turn could adversely affect the ability of the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee.

Changes in the New Zealand Housing Market may affect the quality of the Housing Loan Portfolio, the rate at which the Seller originates new Housing Loans and the level of attrition of the Seller's existing Borrowers, and thereby adversely affect the Covered Bond Guarantor's ability to make payments under the Covered Bond Guarantee.

ANZ New Zealand's business includes mortgage lending in New Zealand with loans secured against residential property. Any fall in property prices resulting from a deterioration in the housing market could result in losses being incurred by lenders where the net recovery proceeds are insufficient to redeem the outstanding loan. Any deterioration in the quality of the Housing Loan Portfolio could have an adverse effect on the Covered Bond Guarantor's ability to make payment under the Covered Bond Guarantee. There can be no assurance that the housing market will not deteriorate.

The current New Zealand economic environment may affect the rate at which the Seller originates new Housing Loans and may also affect the level of attrition of the Seller's existing Borrowers, which could in turn adversely affect the ability of the Covered Bond Guarantor to make payments under the Covered Bond Guarantee.

Changes in housing markets in specific geographic regions may exacerbate any or all of the risks relating to the Housing Loans described in this section.

To the extent that specific geographic regions have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions, a concentration of the Housing Loans in such a region may be expected to exacerbate any or all of the risks relating to the Housing Loans described in this section. The Covered Bond Guarantor can predict neither when nor where such regional economic declines may occur nor to what extent or for how long such conditions may continue but if the timing and payment of the Housing Loans in the Housing Loan Portfolio is adversely affected as described above, the ability of the Covered Bond Guarantor to make payments under the Covered Bond Guarantee could be reduced or delayed.

A variety of factors could result in Borrowers defaulting on their Housing Loans which may adversely affect the ability of the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee.

Borrowers may default on their obligations due under the Housing Loans. Defaults may occur for a variety of reasons. The Housing Loans are affected by credit, liquidity and interest rate risks. Various

factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal on the Housing Loans. These factors include changes in the national, regional or international economic climate such as: volatility in interest rates; lack of liquidity in wholesale funding markets in periods of stressed economic conditions, economic or political crisis; housing market illiquidity and downward price pressure; commencement of recession and employment fluctuations; the availability of financing; consumer perception as to the continuing availability of credit and price competition which may have an adverse impact on delinquency and repossession rates; inflation; yields on alternative investments; and political developments and government policies, including changes in tax laws. Other factors in Borrowers' individual, personal or financial circumstances may also affect the ability of Borrowers to repay the Housing Loans. Loss of earnings, illness, separation, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Housing Loans.

The rate of prepayments on Housing Loans may be increased due to Borrowers refinancing their Housing Loans and sales of any property charged by a Mortgage (either voluntarily by Borrowers or as a result of enforcement action taken), as well as the receipt of proceeds from other investments, buildings insurance and life assurance policies. The rate of prepayment of Housing Loans may also be influenced by the presence or absence of Early Repayment Charges.

In addition, the ability of a Borrower to sell a property charged by a Mortgage which secures a Housing Loan at a price sufficient to repay the amounts outstanding under that Housing Loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values and the property market in general at the time of such proposed sale. Downturns in the New Zealand economy have previously had, and could continue to have, a negative effect on the housing market.

Further, the Housing Loan market in New Zealand is highly competitive. This competitive environment may affect the rate at which the Seller originates new Housing Loans and may also affect the repayment rate of existing Housing Loans.

Climate-related events (including climate change), geological events (volcanic, seismic or tsunamis), plant, animal or human diseases or other extrinsic events, such as flu pandemics, could have a negative effect on a Borrower's ability to pay interest or repay principal on his or her Housing Loan. The most recent examples of this are the major earthquakes in the Canterbury and Kaikoura areas.

If the timing and payment of the Housing Loans is adversely affected by any of the risks described above, the ability of the Covered Bond Guarantor to make payments under the Covered Bond Guarantee could be reduced or delayed.

The Current Principal Balance of any Defaulted Housing Loans in the Housing Loan Portfolio will be given a zero weighting for the purposes of any calculation of the Asset Coverage Test and the Amortisation Test.

The Seller and not the Covered Bond Guarantor initially will retain legal title to the Mortgages which may adversely affect the realisable value of the Housing Loan Portfolio and the ability of the Covered Bond Guarantor to make payments under the Covered Bond Guarantee.

Each sale by the Seller to the Covered Bond Guarantor of the benefit of the Housing Loans is an absolute assignment of a legal thing in action under section 50 of the PLA.

This means that all the rights of the Seller in relation to the Housing Loans, all the remedies of the Seller in relation to the Housing Loans and the power to give a good discharge to the relevant Borrower pass to the Covered Bond Guarantor. It is not necessary for notice to be provided to the relevant Borrower before the rights, remedies and powers in relation to the Housing Loans pass to the Covered Bond Guarantor. However, the passing of those rights, remedies and powers is subject to any equities in relation to the Housing Loan that arise before the relevant Borrower has actual notice of the assignment. Payment by a Borrower to the Seller of all or part of the debt under a Housing Loan before the Borrower receives actual notice of the assignment discharges the liability of the Borrower to the extent of the payment. The registration of a financing statement on the PPSR in relation to the transfer

of Housing Loans under the Mortgage Sale Agreement does not constitute notice of the assignment to the relevant Borrowers

The transfer of the Mortgages by the Seller to the Covered Bond Guarantor is an equitable assignment of an existing legal interest in land. The Mortgage Sale Agreement does not, without more, convey or transfer to the Covered Bond Guarantor the legal title to the Mortgages. The transfer of the legal title to the Mortgages over registered land would require the execution of an A&I Form or submission by way of e-dealing to record the Covered Bond Guarantor's legal interest in the Mortgage at LINZ.

The Covered Bond Guarantor will, however, have the right to execute A&I Forms or make a submission by way of e-dealing at LINZ to transfer legal title to the Mortgages to the Covered Bond Guarantor and deliver notifications to relevant Borrowers notifying such Borrowers of the sale of the Housing Loans in the Housing Loan Portfolio and the Related Security to the Covered Bond Guarantor in the limited circumstances described in "*Summary of the Principal Documents – Mortgage Sale Agreement – Perfection of title to the Housing Loans to the Covered Bond Guarantor*" and until such right arises, the Covered Bond Guarantor will not give notice of the sale of the Housing Loans and the Related Security to any Borrower or register or record its interest in the Mortgages at LINZ or take any other steps to perfect its title to the Mortgages.

At any time during which the Covered Bond Guarantor does not hold legal title to the Mortgages by registration at LINZ or submission of e-dealing or has not provided notification to the relevant Borrower, the following risks exist:

- first, if the Seller wrongly sells a Mortgage, which has already been sold to the Covered Bond Guarantor, to another person and that person acted in good faith and did not have notice of the interests of the Covered Bond Guarantor in the Mortgage, then such person might obtain good title to the Housing Loan and the Related Security, free from the interests of the Covered Bond Guarantor. If this occurred, then the Covered Bond Guarantor would not have good title to the affected Housing Loan. However, the risk of third party claims obtaining priority to the interests of the Covered Bond Guarantor would be likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, negligence or mistake on the part of the Seller or the Covered Bond Guarantor or their respective personnel or agents;
- secondly, until notice of the transfer to the Covered Bond Guarantor has been provided to the relevant Borrowers, the rights of the Covered Bond Guarantor may be subject to the rights of the Borrowers against the Seller, as applicable, such as rights of set-off, which occur in relation to transactions made between Borrowers and the Seller, and the rights of Borrowers to redeem their Mortgages by repaying the Housing Loans directly to the Seller; and
- thirdly, unless the Covered Bond Guarantor has perfected its title to the Mortgages (which it is only entitled to do in certain limited circumstances), the Covered Bond Guarantor would not be able to enforce any Borrower's obligations under a Mortgage itself but would have to join the Seller as a party to any legal proceedings.

If the risks described in the bullet points above were to occur, then the realisable value of the Housing Loan Portfolio or any part thereof and/or the ability of the Covered Bond Guarantor to make payments under the Covered Bond Guarantee may be affected.

Where an entity becomes subject to statutory management under either the RBNZ Act, the Corporations (Investigation and Management) Act 1989 or the Insurance (Prudential Supervision) Act 2010, a moratorium will apply and, among other things, it is an offence for any person, without the consent of the statutory manager, to sell or transfer any property of the entity in statutory management. If the Seller became subject to statutory management, it is uncertain whether the legal title to the Mortgages (which the Seller holds on bare trust for the Covered Bond Guarantor) would constitute "property" of the Seller and consent of the statutory manager would therefore be required for the Seller to transfer the legal title to the Mortgages to the Covered Bond Guarantor. The moratorium also prohibits any person from acting as the agent of an entity in statutory management. However, provided that the Covered Bond Programme is registered, a moratorium in respect of the Seller would not prevent the Covered Bond Guarantor from acting as the Seller's attorney under the Seller Power of Attorney for the purposes of transferring the legal title to the Mortgages to the Covered Bond Guarantor. If the Seller was to become subject to statutory management, it is likely that the statutory

manager would be appointed under the RBNZ Act. Under the RBNZ Act, in exercising its powers the statutory manager must have regard to the advice of the RBNZ.

See also "*Risk Factors – Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the ANZ New Zealand Group's business, operations, financial condition and reputation*".

The value of the Housing Loan Portfolio may decrease if there is a decline in property values and this may result in losses to the Covered Bondholders if the security is required to be enforced.

The guarantee granted by the Covered Bond Guarantor in respect of the Covered Bonds, will, *inter alia*, be backed by the Covered Bond Guarantor's interest in the Housing Loan Portfolio. Since the economic value of the Housing Loan Portfolio may increase or decrease, the value of the Covered Bond Guarantor's assets may decrease (for example, if there is a general decline in property values). Neither the Issuers, the Guarantor nor the Covered Bond Guarantor makes any representation, warranty or guarantee that the value of a Property will remain at the same level as it was on the date of the origination of the related Housing Loan or at any other time. The value of the Housing Loan Portfolio may have been significantly reduced by the overall decline in property values experienced by the residential property market in New Zealand and may also be further reduced by any additional decline in the value of properties within the Housing Loan Portfolio. This, ultimately, may result in losses to the Covered Bondholders if such security is required to be enforced.

Changes to the Servicing Procedures may change the characteristics of the Housing Loan Portfolio which could adversely affect the ability of the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee.

Each of the Housing Loans in the Mortgage Portfolio originated by the Seller will have been originated in accordance with the Seller's Servicing Procedures applicable at the time of origination. The Seller's Servicing Procedures consider a variety of factors such as a potential Borrower's credit history, employment history and status and repayment ability, as well as the value of the Property to be mortgaged. In the event of the sale of any new Housing Loans and the Related Security to the Covered Bond Guarantor, representations and warranties will at such time be given by the Seller to the Covered Bond Guarantor and the Security Trustee that those new Housing Loans and the Related Security were originated in accordance with the Seller's Servicing Procedures then applicable at the time of the origination of such new Housing Loans. However, the Seller retains the right to amend or revise its Servicing Procedures as determined from time to time.

If any new Housing Loans which have been originated under revised Servicing Procedures are then sold to the Covered Bond Guarantor pursuant to the terms of the Mortgage Sale Agreement, the characteristics of the Housing Loan Portfolio could at such time change. This could have an adverse effect on the ability of the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee.

The sole recourse of the Covered Bond Guarantor for a material breach of the Representations and Warranties made by the Seller in respect of any Housing Loan and/or Related Security is for the Seller to repurchase the relevant Housing Loan and the Related Security, and there is no assurance that the Seller will have the financial resources to do so.

The Covered Bond Guarantor, the Bond Trustee and the Security Trustee will not undertake any investigations, searches or other actions on any Housing Loan or the Related Security and will rely instead on the Representations and Warranties given in the Mortgage Sale Agreement by the Seller in respect of the Housing Loans sold by the Seller to the Covered Bond Guarantor.

In the event of a material breach of any of the Representations and Warranties made by the Seller or if any of the Representations and Warranties proves to be materially untrue, in each case in respect of any Housing Loan in the Housing Loan Portfolio and/or the Related Security as at the date on which such Representation and Warranty is given (having regard to, among other things, whether a loss is likely to be incurred in respect of the Housing Loan to which the breach relates after taking into account the likelihood of recoverability or otherwise of any sums under any applicable Insurance Policies), and further provided that (a) the Covered Bond Guarantor (with the consent of the Security Trustee) or the Security Trustee has given the Seller not less than 28 days' notice in writing, and (b) such breach or

untruth, where capable of remedy, is not remedied to the satisfaction of, or waived by, the Covered Bond Guarantor (with the consent of the Security Trustee) or the Security Trustee within the 28-day period referred to in (a) (or such longer period as may be agreed), then the Covered Bond Guarantor may serve upon the Seller a notice in the form of a Housing Loan Repurchase Notice whereupon the Covered Bond Guarantor will be required to sell and the Seller will be required to repurchase the relevant Housing Loan and the Related Security, unless the Related Security also secures another Housing Loan in the Housing Loan Portfolio, together for the Repurchase Price payable as at the Repurchase Date.

There can be no assurance that the Seller, in the future, will have the financial resources to repurchase from the Covered Bond Guarantor a Housing Loan or Housing Loans and the Related Security. However, if the Seller does not repurchase those Housing Loans and the Related Security which are in material breach of the Representations and Warranties as at the date on which such Representation and Warranty is given, then the LVR Adjusted Housing Loan Balance Amount or the Asset Percentage Adjusted Housing Loan Balance Amount of those Housing Loans (as applicable) will be deducted from the calculation of the Adjusted Aggregate Housing Loan Amount in the calculation of the Asset Coverage Test. There is no further recourse to the Seller in respect of a material breach of a Representation or Warranty.

PROGRAMME OVERVIEW

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Series or Tranche of Covered Bonds, the applicable Final Terms. Words and expressions defined elsewhere in this Prospectus shall have the same meanings in this summary. A glossary of certain defined terms is contained at the end of this Prospectus.

The Parties

Issuers	<p>ANZ New Zealand, incorporated as a company under the NZ Companies Act with company number 35976 and having its registered office at ANZ Centre, Ground Floor, 23-29 Albert Street, Auckland 1010, New Zealand.</p> <p>ANZNIL, incorporated as a company under the NZ Companies Act with company number 328154 and having its registered office at ANZ Centre, Ground Floor, 23-29 Albert Street, Auckland 1010, New Zealand.</p> <p>For a more detailed description of the Issuers see "ANZ Bank New Zealand Limited" and "ANZ New Zealand (Int'l) Limited".</p>
Guarantor.....	<p>ANZ New Zealand (in respect of Covered Bonds issued by ANZNIL only)</p> <p>For a more detailed description of the Guarantor see "ANZ Bank New Zealand Limited".</p>
Covered Bond Guarantor	<p>ANZNZ Covered Bond Trust Limited, incorporated as a company under the NZ Companies Act with company number 3220967 and having its registered office at Level 9, 34 Shortland Street, Auckland, 1010, New Zealand as trustee of the ANZNZ Covered Bond Trust.</p>
The Trust.....	<p>ANZNZ Covered Bond Trust.</p>
The Beneficiaries	<p>The ANZ Staff Foundation.</p>
Trust Manager	<p>ANZ Chapel Court Limited.</p>
Seller	<p>ANZ New Zealand.</p>
Calculation Manager / Servicer / Interest Rate Swap Provider / Covered Bond Swap Provider / Account Bank / Intercompany Loan Provider / Demand Loan Provider	<p>ANZ New Zealand.</p>
Bond Trustee.....	<p>Deutsche Trustee Company Limited.</p>
Security Trustee.....	<p>New Zealand Permanent Trustees Limited.</p>
Asset Monitor.....	<p>KPMG.</p>
Arrangers	<p>ANZ New Zealand and Barclays Bank PLC.</p>
Dealers	<p>Australia and New Zealand Banking Group Limited and Barclays Bank PLC.</p>

Principal Paying Agent	Deutsche Bank AG, London Branch.
U.S. Paying Agent	Deutsche Bank Trust Company Americas.
Luxembourg Registrar	Deutsche Bank Luxembourg S.A.
U.S. Registrar	Deutsche Bank Trust Company Americas.
Exchange Agent	Deutsche Bank AG, London Branch.
Transfer Agents	Deutsche Bank Luxembourg S.A. Deutsche Bank Trust Company Americas.
Rating Agencies	Fitch Australia Pty Ltd and Moody's Investors Service Pty Ltd.

The Covered Bonds

Programme Size	Up to €8,000,000,000 (or its equivalent in other currencies determined as described in the Programme Agreement) outstanding at any time. The Issuers may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution	Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in " <i>Subscription and Sale and Transfer and Selling Restrictions</i> " below.
Specified Currencies	Subject to any applicable legal or regulatory restrictions, Covered Bonds may be issued in such currency or currencies as may be agreed from time to time by the Relevant Issuer, the Guarantor (if ANZNIL is the Issuer), the Relevant Dealer(s), the Principal Paying Agent and the Bond Trustee (as set out in the applicable Final Terms).
Certain Restrictions	Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and Sale and Transfer and Selling Restrictions</i> ").
Issue Price	Covered Bonds may be issued at par or at a premium or discount to par on a fully-paid basis (as set out in the applicable Final Terms).
Form of Covered Bonds	The Covered Bonds will be issued in bearer or registered form as described in " <i>Form of the Covered Bonds</i> ". Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds and Bearer Covered Bonds will not be exchangeable for Registered Covered Bonds. Interest on Covered Bonds in bearer form will only be payable outside the United States and its possessions.

Covered Bonds may be Fixed Rate Covered Bonds, Floating Rate Covered Bonds or Zero Coupon Covered Bonds and may be Instalment Covered Bonds or Hard Bullet Covered Bonds, depending on the applicable Final Terms, and subject, in each case, to confirmation from the Rating Agencies that the then current credit ratings of any outstanding Series of Covered Bonds will not be adversely affected by the issuance of such Covered Bonds.

Fixed Rate Covered Bonds..... Fixed Rate Covered Bonds will bear interest at a fixed rate which will be payable on such date or dates as may be agreed among the Relevant Issuer, the Guarantor (if ANZNIL is the Issuer) and the Relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Relevant Issuer, the Guarantor (if ANZNIL is the Issuer) and the Relevant Dealer(s) (in each case as set out in the applicable Final Terms).

Floating Rate Covered Bonds..... Floating Rate Covered Bonds will bear interest at a rate determined:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or
- (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service,

in each case as set out in the applicable Final Terms.

The Margin (if any) relating to such floating rate will be agreed among the Relevant Issuer, the Guarantor (if ANZNIL is the Issuer) and the Relevant Dealer(s) for each issue of Floating Rate Covered Bonds (as set out in the applicable Final Terms).

Zero Coupon Covered Bonds Zero Coupon Covered Bonds, bearing no interest, may be offered under the Programme.

Instalment Covered Bonds..... Instalment Covered Bonds may be offered under the Programme and will be redeemable in two or more instalments of such amounts and on such dates as specified in the applicable Final Terms.

Hard Bullet Covered Bonds..... Hard Bullet Covered Bonds may be offered under the Programme and will be subject to a Pre-Maturity Test. The intention of the Pre-Maturity Test is to provide liquidity to the Covered Bond Guarantor in relation to amounts of principal due on the Final Maturity Date of the Hard Bullet Covered Bonds.

Rating Agency Confirmation..... The issuance of each Series of Covered Bonds shall be subject to confirmation by each of the Rating Agencies that the then current credit ratings for any outstanding Covered Bonds will not be adversely affected by the issuance of such types of Covered Bonds.

Maturities	Subject to compliance with all applicable legal, regulatory and/or central bank requirements, Covered Bonds may be issued with such maturities as may be agreed among the Relevant Issuer, the Guarantor (if ANZNIL is the Issuer) and the Relevant Dealer(s) (as set out in the applicable Final Terms).
Redemption	<p>The applicable Final Terms for a Series of Covered Bonds will indicate either that the relevant Covered Bonds of such Series cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or if it becomes unlawful for any Term Advance or the Demand Loan to remain outstanding) or that such Covered Bonds will be redeemable at the option of the Relevant Issuer upon giving notice to the Covered Bondholders, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Relevant Issuer and the Relevant Dealer(s) or that such Covered Bonds will be redeemable at the option of the Covered Bondholders upon giving notice to the Relevant Issuer, on a date or dates specified prior to such stated maturity and at their Optional Redemption Amount as specified in the applicable Final Terms.</p> <p>The applicable Final Terms may provide that Covered Bonds may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.</p>
Final Redemption	Unless an Extended Due for Payment Date is specified as applicable in the applicable Final Terms for a Series of Covered Bonds, if that Series of Covered Bonds has not already been redeemed or purchased and cancelled in full in accordance with their terms and conditions, those Covered Bonds will be redeemed at their Final Redemption Amount on the Final Maturity Date for such Covered Bonds, as set out in the applicable Final Terms.
Extendable obligations under the Covered Bond Guarantee	If an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and (i) the Relevant Issuer and the Guarantor (if ANZNIL is the Issuer) fails to pay in full, the Final Redemption Amount for such Covered Bonds on the Final Maturity Date for such Covered Bonds (or by the end of the applicable grace period) and (ii) following the service of a Notice to Pay on the Covered Bond Guarantor by no later than the date falling one Business Day prior to the Extension Determination Date, the Covered Bond Guarantor fails to pay, in full, the Guaranteed Amounts equal to the unpaid portion of such Final Redemption Amount by the earlier of (a) the date which falls two Business Days after service of such Notice to Pay on the Covered Bond Guarantor or, if later, the Final Maturity Date (in each case subject to any grace period) and (b) the Extension Determination Date for such Covered Bonds in accordance with the terms of the Covered Bond Guarantee (for example, because, following the service of a Notice to Pay on the

Covered Bond Guarantor, there are insufficient moneys available to it to pay, in accordance with the Guarantee Priority of Payments, such Guaranteed Amounts in full), then the obligation of the Covered Bond Guarantor to pay the unpaid portion of such Guaranteed Amount, or any part thereof will be deferred to the Extended Due for Payment Date (and a Covered Bond Guarantor Event of Default shall not occur as a result of such failure). The Issuer may pay any amount representing the Final Redemption Amount on any Interest Payment Date thereafter up to and including the Extended Due for Payment Date (after providing for liabilities ranking in priority thereto or *pari passu* therewith subject to and in accordance with the Guarantee Priority of Payments). Such payment shall not be deferred beyond the Extended Due for Payment Date when the unpaid portion of such Guaranteed Amount (together with accrued interest) shall be due and payable. Interest will accrue on any such unpaid portion during such extended period and will be due and payable on each Interest Payment Date up to, and including, the Extended Due for Payment Date in accordance with Condition 4 (*Interest and other Calculations*).

Denomination of Covered Bonds.....

The Covered Bonds will be issued:

- (i) under the Programme Agreement in such denominations as may be agreed between the Relevant Issuer and the Relevant Dealer(s) and set out in the applicable Final Terms save that, except in limited circumstances, the minimum denomination of each Covered Bond will be €100,000 and integral multiples of €1,000 in excess thereof (or, if the Covered Bonds are denominated in a currency other than Euro, the equivalent amount in such currency); and
- (ii) under the Distribution Agreement in such denominations as may be agreed between the Relevant Issuer and the Relevant Dealer(s) and set out in the applicable Final Terms save that, except in limited circumstances, the minimum denomination of each Covered Bond will be US\$200,000 and integral multiples of US\$1,000 in excess thereof (or if the Covered Bonds are denominated in a currency other than US\$ the equivalent amount in such currency),

or such other higher amount.

Taxation.....

All payments in respect of principal and interest on the Covered Bonds will be made without deduction or withholding for or on account of any taxes whatsoever, subject as provided in Condition 7 (*Taxation*).

Where ANZNIL is the Issuer, if any such deduction or withholding is made by ANZNIL (or the Guarantor), ANZNIL or the Guarantor (as the case may be) will, save in the limited circumstances provided in Condition

7 (*Taxation*), pay additional amounts in respect of the amounts so deducted or withheld or redeem the Covered Bonds in accordance with the Terms and Conditions of the Covered Bonds.

Where ANZ New Zealand is the Issuer, if any such deduction or withholding is made by ANZ New Zealand, ANZ New Zealand will not be obliged to pay any additional amounts as a consequence under Condition 7 (*Taxation*) however, it shall be obliged to pay additional amounts arising as a result of the non-resident withholding tax rules in the Tax Act and intends to pay the approved issuer levy.

If any payments made by the Covered Bond Guarantor under the Covered Bond Guarantee are or become subject to any such withholding or deduction, the Covered Bond Guarantor will not be obliged to pay any additional amount as a consequence under Condition 7 (*Taxation*).

If the Covered Bond Guarantor is required by law to pay any amount of approved issuer levy in respect of any payment under the Covered Bond Guarantee, it may deduct from such payments an amount equal to the amount of approved issuer levy payable and will not be obliged to pay any additional amount as a consequence.

Cross Default..... If a Covered Bond Guarantee Acceleration Notice is served in respect of any Series of Covered Bonds, then the obligation of the Covered Bond Guarantor to pay Guaranteed Amounts in respect of all Series of Covered Bonds outstanding will be accelerated. If a Notice to Pay is served in respect of any Series of Covered Bonds, then the Covered Bond Guarantor will be required to make payments of Guaranteed Amounts in respect of all Series of Covered Bonds outstanding when the same will become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Status of the Covered Bonds..... The Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Relevant Issuer and will rank *pari passu* without any preference or priority among themselves and (other than any obligation preferred by mandatory provisions of applicable law) at least equally with all other present and future unsecured and unsubordinated obligations of the Relevant Issuer, from time to time outstanding.

Status of the Guarantee..... Only Covered Bonds issued by ANZNIL will be guaranteed by the Guarantor under the Guarantee. The Guarantee will constitute direct, unconditional, unsubordinated and unsecured obligations of the Guarantor and will rank (other than any obligation preferred by mandatory provisions of applicable law) at least equally with all other present and future unsecured and unsubordinated obligations of the Guarantor from time to time outstanding. The Guarantee is unsecured.

Covered Bond Guarantee Payment of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be irrevocably guaranteed by the Covered Bond Guarantor under the Covered Bond Guarantee. The Covered Bond Guarantor will be under no obligation to make payment in respect of the Guaranteed Amounts when Due for Payment unless (i) an Issuer Event of Default has occurred, an Issuer Acceleration Notice is served on the Relevant Issuer and, if applicable, the Guarantor and a Notice to Pay is served on the Covered Bond Guarantor, or (ii) a Covered Bond Guarantor Event of Default has occurred and a Covered Bond Guarantee Acceleration Notice is served on the Covered Bond Guarantor, the Issuers and the Guarantor. Subject to its obligation to deliver a Notice to Pay, the Bond Trustee is entitled to enforce the Covered Bond Guarantee following an Issuer Event of Default without first proceeding against the Guarantor. The obligations of the Covered Bond Guarantor under the Covered Bond Guarantee will accelerate against the Covered Bond Guarantor and the Guaranteed Amounts will become immediately due and payable upon the service of a Covered Bond Guarantee Acceleration Notice. The obligations of the Covered Bond Guarantor under the Covered Bond Guarantee constitute direct obligations of the Covered Bond Guarantor secured against the assets from time to time of the Covered Bond Guarantor and recourse against the Covered Bond Guarantor is limited to such assets.

Ratings..... Each Series of Covered Bonds to be issued under the Programme will, unless otherwise specified in the applicable Final Terms, be rated "Aaa" by Moody's and "AAA" by Fitch.

The credit ratings of certain Series of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms.

In general, European regulated investors are restricted from using a credit rating for regulatory purposes if such credit rating is not issued by a credit rating agency established in the European Union 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 the credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended).

Credit ratings are not a recommendation or suggestion, directly or indirectly, to any investor or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security for a particular investor (including without limitation, any accounting and/or regulatory treatment), or the tax-exempt nature or taxability of payments made in respect of any investment, loan or security. The Rating Agencies are not advisers, nor do the Rating Agencies

provide investors or any other party any financial advice, or any legal, auditing, accounting, appraisal, valuation or actuarial services. A credit rating should not be viewed as a replacement for such advice or services.

Listing and admission to trading..... Application has been made to the UK Listing Authority for Covered Bonds issued under the Programme to be admitted to, during the period of 12 months from the date of this Prospectus, the Official List and to the London Stock Exchange and for such Covered Bonds to be admitted to trading on the regulated market of the London Stock Exchange.

Governing Law The Covered Bonds, the Bond Trust Deed, the Interest Rate Swap Agreement, each Covered Bond Swap Agreement, the Principal Agency Agreement and the Programme Agreement and any non-contractual obligations arising out of or in connection with each of them are governed by, and will be construed in accordance with, English law.

The Establishment Deed, the Mortgage Sale Agreement, the Servicing Agreement, the Intercompany Loan Agreement, the Demand Loan Agreement, the Management Agreement, the Delegation Agreement, the Security Deed, the Definitions Schedule, the Asset Monitor Agreement and the Account Bank Agreement are governed by, and will be construed in accordance with, New Zealand law.

The Distribution Agreement is governed by, and will be construed in accordance with, the laws of the State of New York.

Selling Restrictions There are restrictions on the offer, sale and transfer of any Tranche of Covered Bonds (see "*Subscription and Sale and Transfer and Selling Restrictions*").

ANZ BANK NEW ZEALAND LIMITED

ANZ New Zealand was incorporated under the New Zealand Companies Act 1955 on 23 October 1979, was re-registered under the New Zealand Companies Act 1993 on 13 June 1997 and is a company limited by shares. ANZ New Zealand's principal executive offices and registered office are located at ANZ Centre, Ground Floor, 23-29 Albert Street, Auckland 1010, New Zealand. Its New Zealand company number is 35976 and telephone number is +64 9 252 2974. ANZ New Zealand is a wholly-owned subsidiary of ANZBGL. ANZ New Zealand is a registered bank under the RBNZ Act.

ANZ New Zealand is the largest full-service banking group in New Zealand, according to the KPMG Financial Institutions Performance Survey Review, released by KPMG New Zealand in February 2018. As at 31 March 2018, ANZ New Zealand and its subsidiaries had total assets of \$156,362 million and held the largest market share measured by total assets¹ as at 31 March 2018 compared to other registered banks in New Zealand.

As at 31 March 2018, ANZ New Zealand held approximately 30 per cent. and the New Zealand Branch of ANZBGL held approximately 1 per cent. of the total assets held by registered banks in New Zealand, based on the data series "*S10 Banks: Balance Sheet for registered banks*" published by the RBNZ. At the date of this Prospectus, ANZ New Zealand is supported by 180 branches with a customer base of over 2 million.

Competitive Strengths

ANZ New Zealand's competitive strengths are set out below. ANZ New Zealand:

1. is New Zealand's largest bank with a combined customer base of over 2 million;
2. has the leading market share in all major business segments in New Zealand and a diverse business mix reflecting the make-up of the economy;
3. has multiple well-respected brands;
4. maintains strong local corporate governance and New Zealand-based management; and
5. benefits from the international connectivity of the ANZ Group.

ANZ New Zealand's Strategy

ANZ New Zealand aspires to be New Zealand's best bank by helping New Zealanders become more successful. To that end ANZ New Zealand has four strategic priorities:

1. attract, develop and retain world class service and sales teams;
2. modernise service through improved digital and data capabilities;
3. simplify products and processes; and
4. improve its connections between frontline channels to support customer interactions.

Recent Developments

Changes to ANZ New Zealand's Board of Directors

On 31 December 2017, John Judge retired from the board of directors of ANZ New Zealand (the "**Board**"). On 18 October 2017, former New Zealand Prime Minister, the Rt Hon Sir John Key, was appointed to the Board and became the Board's Chair on 1 January 2018. Sir John Key was also appointed to the board of directors of ANZBGL on 28 February 2018. The RBNZ has confirmed that this appointment with ANZBGL does not affect Sir John Key's ability to act as an independent non-executive director of ANZ New Zealand.

¹ Source: RBNZ – Bank Financial Strength Dashboard as at 31 March 2018, *S10 Banks: Balance Sheet for registered banks*.

Michelle Jablko, Chief Financial Officer of ANZBGL, was appointed to the Board as a non-executive director on 29 March 2018, following the retirement of Nigel Williams. Mr. Williams also retired from his roles as ANZBGL's Chief Risk Officer and as a member of the Group Executive Committee.

The ANZ Group's Strategic Review of its Wealth Businesses

The strategic review of the ANZ Group's Wealth businesses in Australia and New Zealand concluded that while the distribution of high quality wealth products and services should remain a core component of the ANZ Group's overall customer proposition, the ANZ Group does not need to be a manufacturer of life and investments products.

On 17 October 2017, the ANZ Group announced it had agreed to sell its OnePath Pensions and Investments ("**OnePath P&I**") businesses and aligned dealer groups businesses to Australian Wealth Management Limited, a wholly owned subsidiary of IOOF Holdings Limited ("**IOOF**"). On 12 December 2017, the ANZ Group announced that it had agreed to sell its life insurance business in Australia ("**OnePath Life Australia**") to Zurich Financial Services Australia Limited ("**Zurich**"). These sales do not materially impact the ANZ New Zealand Group's financial condition or business strategy.

On 30 May 2018, ANZ New Zealand announced it had agreed to sell OnePath Life NZ, a provider of insurance products and a wholly owned subsidiary of ANZ New Zealand, for NZ\$700 million to Cigna. The sale includes a 20-year strategic alliance for Cigna to provide insurance solutions for ANZ New Zealand customers. Under the agreement, ANZ New Zealand will continue to provide insurance products to its customers, but these insurance products will be manufactured and managed by Cigna. The sale remains subject to regulatory approval and is expected to complete in 2019. The sale is consistent with our strategy to simplify our business.

UDC Finance Limited ("UDC")

On 12 January 2018, ANZ New Zealand announced that the agreement to sell UDC to HNA had been terminated and that the proposed divestment would not be completed following the New Zealand Overseas Investment Office's decision to decline HNA's application to acquire UDC. ANZ New Zealand continues to examine a broad range of options for UDC's future. As a result of the ongoing process, the assets and liabilities of UDC meet the criteria to be classified as held for sale as at 31 March 2018.

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. ANZ New Zealand began contacting customers affected by the error in June 2018. ANZ New Zealand 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 Commerce Commission in June 2017.

Proceedings and Investigation Relating to ANZBGL's 2015 Institutional Equity Placement

On 31 May 2018, the CDPP in Australia advised ANZBGL that the CDPP intended to commence criminal proceedings against ANZBGL for being knowingly concerned in alleged cartel conduct by the joint lead managers of ANZBGL's underwritten institutional equity placement of approximately 80.8 million ANZBGL ordinary shares in August 2015.

The proceedings, which were commenced in early June 2018, relate to an arrangement or understanding allegedly made between the joint lead managers in relation to the supply of ANZBGL ordinary shares. The CDPP has also brought criminal proceedings against a senior employee of ANZBGL.

ANZBGL believes that it acted in accordance with the law in relation to the placement and on that basis ANZBGL intends to defend both itself and its employee.

ANZBGL is also co-operating with an investigation by the Australian Securities and Investments Commission ("**ASIC**") in relation to the placement. ASIC is investigating whether ANZBGL's announcement on the Australian Securities Exchange ("**ASX**") of 7 August 2015 should have stated that the joint lead managers took up approximately 25.5 million ANZBGL ordinary shares of the placement. This represented approximately 0.91% of total ANZBGL ordinary shares on issue at that time.

As a member of the ANZ Group, any impact on the ANZ Group that arises as a result of the CDPD proceedings or the ASIC investigation may also have an impact on ANZ New Zealand.

APRA release discussion paper for consultation

APRA Prudential Standard APS 222 *Associations with Related Entities* sets minimum requirements for authorised deposit-taking institutions in Australia ("**ADIs**"), including ANZBGL, in relation to the monitoring, management and control of risks which arise from associations with related entities (e.g. financial and reputational contagion) and also includes prudential limits on intra-group exposures. On 2 July 2018, APRA released a discussion paper for consultation outlining revisions to Prudential Standard APS 222 *Associations with Related Entities* ("**Related Entities Proposals**"). A three-month consultation period has commenced with APRA seeking feedback from the industry on the Related Entities Proposals, which would, among other things, require ADIs, including ANZBGL, to limit their exposure to related entities to 25% of an ADI's Tier 1 Capital on a Level 1 basis (from the current limit of 50% of total capital) and limit their aggregate exposure to all related entities to 75% of Tier 1 Capital on a Level 1 basis (from the current limit of 150% of total capital). Subject to feedback and any resultant changes, APRA anticipates that the Related Entities Proposals would be implemented starting 1 January 2020 and may be subject to an as-yet unspecified transition period for ADIs that are most impacted by the reforms.

As ANZ New Zealand and ANZNIL are considered related entities of ANZBGL, the Related Entities Proposals, if implemented, may have an adverse effect on ANZ New Zealand's and ANZNIL's business, results of operations, liquidity, capital resources or financial condition.

The ANZ New Zealand Group's organisational structure

Business lines and executive team

The ANZ New Zealand Group's business is organised into the following three major business segments: 1) Retail (including the personal and Business Banking businesses and Wealth), 2) Commercial (including the Commercial and Agri ("**CommAgri**") business and UDC) and 3) Institutional. These segments are supported by centralised back office and corporate functions. Life insurance and fund management products are developed and procured through ANZ New Zealand's wholly-owned subsidiaries OnePath Life NZ, ANZ New Zealand Investments Limited and ANZ Investment Services (New Zealand) Limited. Life insurance and funds management products are distributed through the Retail segment.

As of the date of this Prospectus, the ANZ New Zealand executive team is comprised of the following roles:

Executive Team

- Chief Executive Officer;
- Managing Director, Retail and 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

Retail

Retail provides a full range of banking and wealth management services to consumer, private banking and small business banking customers. The ANZ New Zealand Group deliver its services via its 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 (including asset financing) through dedicated managers focusing on privately owned medium to large enterprises and the agriculture business segment.

Institutional

The Institutional division services global institutional and business 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, 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.

Other

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

Branding Strategy

The ANZ New Zealand Group continues to simplify its brand portfolio.

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

In specialised 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);
- OnePath Life (insurance); and

- Bonus Bonds.

Significant Subsidiaries

ANZNIL is ANZ New Zealand's only significant subsidiary. It is incorporated in New Zealand and is 100 per cent. owned directly by ANZ New Zealand.

As at 31 March 2018, ANZNIL does not account for 10 per cent. or more of any of the ANZ New Zealand Group's investments, operating surplus or assets for the most recent fiscal period, but it is considered by management to be of importance to ANZ New Zealand. In addition, as at 31 March 2018, ANZNIL accounts for more than 10 per cent. of the ANZ New Zealand Group's total liabilities.

MANAGEMENT

Board of Directors of ANZ New Zealand

Composition of Board of Directors

At the date of this Prospectus, the members of ANZ New Zealand's Board were as follows:

Name	Age	Position
David Hisco	54	Executive Director and Chief Executive Officer, ANZ New Zealand and Group Executive for Pacific and International Retail and Asia Wealth
John Key	56	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	45	Non-Executive Director, ANZ New Zealand and Chief Financial Officer, ANZBGL
Antony Carter	60	Independent Non-Executive Director
Joan Withers	64	Independent Non-Executive Director
Mark Verbiest	60	Independent Non-Executive Director

For the purposes of this Prospectus, 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 Prospectus, 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 it does not expect any actual conflict of interest would arise.

The Board of ANZ New Zealand has adopted a Board Charter which sets out the Board's purpose, powers and responsibilities.

David Hisco. Mr Hisco was appointed Director and Chief Executive Officer of ANZ New Zealand on 13 October 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 18 October 2017 and succeeded Mr John Judge as Chair on 1 January 2018. He 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 28 February 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 11 August 2009. Mr Elliott was appointed Director and Chief Executive Officer of ANZBGL on 1 January 2016, formerly holding the position of Chief Financial Officer of ANZBGL from 1 June 2012, and the position of Chief Financial Officer Designate with ANZBGL from 1 March 2012 and prior to that, Chief Executive Officer, Institutional with ANZBGL. Mr Elliott took up the position of Chief Executive Officer, Institutional with ANZBGL in June 2009, having spent more than 20 years at Citigroup. On 1 January 2016, Mr Elliott succeeded Mr Michael Smith as Chief Executive Officer of ANZBGL. Before joining ANZBGL, Mr Elliott was Head of Business Development for EFG Hermes, the largest investment bank in the Middle East. Mr Elliott has a significant breadth of experience in banking at a regional and a country level, and in all aspects of the industry. 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 29 March 2018. Ms Jablko joined ANZBGL as its Chief Financial Officer on 18 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 26 August 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 organisation, 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 1 July 2013. Mrs Withers has an extensive career in management and governance roles in New Zealand, being the former CEO of Fairfax Media and The Radio Network. Mrs Withers is 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 10 October 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 Willis Bond General Partner Limited and Willis Bond Capital Partners Limited. Mr Verbiest is also a Director of Meridian Energy Limited, Freightways Limited, Bear Fund NZ Limited, MyCare Limited, a member of the New Zealand Treasury Board and its Commercial Operations Advisory Board and acts as an independent consultant to The Treasury.

Remuneration of ANZ New Zealand directors

ANZ New Zealand's directors were paid an aggregate of \$1,099,257, \$936,638 and \$890,565 in directors' fees for the years ended 30 September 2017, 2016 and 2015, respectively.

Related party transactions

As permitted under New Zealand law, ANZ New Zealand extends loans to directors and executives. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. For further information refer to Note 30 of the Full Year Disclosure Statement.

Board committees

To assist in the execution of its responsibilities, the ANZ New Zealand Board has established committees, including an Audit Committee, a Human Resources Committee and a Risk Committee, each with a charter, to assist and support the ANZ New Zealand 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 ANZ New Zealand Board by 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's 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 ANZ New Zealand 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 ANZ New Zealand 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 ANZ New Zealand 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 licence 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.

Board of Directors of ANZNIL

At the date of this Prospectus, the members of ANZNIL's Board of Directors were as follows:

Name	Age	Principal Outside Activities
David Hisco	54	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 the purposes of this Prospectus, the business address of each member 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 Prospectus, 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 it does not expect any actual conflict of interest would arise.

ANZ NEW ZEALAND (INT'L) LIMITED

ANZNIL was incorporated under the New Zealand Companies Act 1955 on 8 December 1986, was re-registered under the New Zealand Companies Act 1993 on 27 May 1996 and is a company limited by shares. The registered office of ANZNIL is located at ANZ Centre, Ground Floor, 23-29 Albert Street, Auckland 1010, New Zealand. ANZNIL's London branch is located at 28th Floor, 40 Bank Street, Canary Wharf, London E14 5EJ, United Kingdom, and the telephone number is +44 20 3229 2017. The New Zealand company number of ANZNIL is 328154.

ANZNIL is a wholly-owned subsidiary of ANZ New Zealand (see "*ANZ Bank New Zealand Limited*" above for details of ANZ New Zealand).

The principal activities of ANZNIL include the provision of funding facilities and wholesale financing to the ANZ New Zealand Group, 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 Covered Bonds, 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 programmes. ANZNIL has not made any principal investments since the date of its last audited financial statements, and there are no principal future investments on which the management has given firm commitment.

ANZ BANK NEW ZEALAND LIMITED'S MORTGAGE BUSINESS

Introduction

The Seller offers home loans, secured by mortgage over residential property. These loans have a range of repayment and interest rate options.

The Seller can offer new types of home loans that are not described in this Prospectus at any time. Borrowers whose loans have been sold to the Covered Bond Guarantor can choose to switch to these new loans. See the section "*Summary of the Principal Documents – Mortgage Sale Agreement – Product Switches, Further Advances and Cash Redraws*" for more information about the impact of product switches.

All home loans are secured by registered first ranking mortgages over owner-occupied, or non-owner occupied, residential property in New Zealand. Residential property includes detached individual units, apartments, townhouses, terrace houses, duplexes and other attached buildings.

The Seller offers home loans with:

- *variable interest rates* – an interest rate, per annum, that the Seller can move up or down from time to time, as often as daily, by giving notice to the borrower.
- *fixed interest rates* – an interest rate, per annum, for a fixed period, usually 6 months, 18 months, one, two, three, four or five years. Other fixed periods may be offered from time to time, for example a 30 month fixed rate. At the end of the fixed period, the interest rate will change to a variable interest rate, or, the borrower can arrange a new fixed interest rate period.

See the section "*ANZ Bank New Zealand Limited's Mortgage business – The Seller's Product Types – Features of the Home Loans*" for more information.

The Seller may offer fee and interest rate discounts to some borrowers, subject to certain criteria.

Borrowers may repay some or all of the home loan at any time, change to a different interest rate option, or change their repayments or loan term. However, the borrower may be charged a fee, and in some cases, an early repayment recovery. Unless the borrower is increasing his or her borrowing or extending the term of the loan, the changes are made to the home loan without a new credit assessment being made.

The home loans the Seller offers differ from loans offered by lenders in other jurisdictions. Some of the main differences are:

- Variable interest rates are not tied to an index, such as LIBOR, but are set by the Seller.
- The Seller does not generally offer home loans with an interest rate that is fixed for the full term of the loan (10, 25 or 30 years). Instead, as described above, the Seller offers a fixed interest rate for a maximum period of five years.
- New Zealand borrowers frequently split the total amount borrowed into more than one loan. This allows the borrower to choose a mix of variable and fixed interest rates, different repayment options or loan terms. The mix of loans chosen by borrowers reflects their personal circumstances, and can change over time as borrowers react to changes in their circumstances, interest rate movements or other market conditions.

The Seller's Product Types

Term home loans

The Seller offers home loans that must be repaid in full by a date that is set at the beginning of the loan.

The Seller offers home loans with variable interest rates – an interest rate, per annum, that the Seller can move up or down from time to time, as often as daily, by giving notice to the borrower.

The Seller also offers home loans with fixed interest rates – an interest rate, per annum, for a fixed period, usually six months, 18 months, one, two, three, four or five years. Other fixed periods may be offered from time to time, for example a 30 month fixed rate. At the end of the fixed period, the interest rate will change to a variable interest rate, or the borrower can arrange a further fixed rate period. The Seller may agree to discount the interest rate for particular customers from time to time.

Flexible home loan

The Seller also offers 'flexible' home loans that operate as a line of credit and do not have to be repaid in full by a set date. However, the Seller can require full repayment or reduce the approved credit limit at any time. The borrower can draw funds up to an approved credit limit. The borrower can repay some or the entire loan amount and then redraw it again at any time.

The flexible home loan has a variable interest rate that the Seller can move up or down at any time, similar to a standard variable interest rate. However, the interest rate on these loans is not linked to the standard variable interest rate. The Seller may agree to discount the interest rate for particular customers from time to time.

These flexible home loans are not included in the Housing Loan Portfolio. However, a Mortgage that secures a Housing Loan that forms part of the Housing Loan Portfolio may also secure a flexible home loan provided by the Seller. Where this occurs, the Seller has agreed that any sums owed to it by the Borrower under the flexible home loan and which are secured by the Mortgage which also secures a Housing Loan in the Housing Loan Portfolio, will be subject and subordinated to any sums owed to the Covered Bond Guarantor.

Features of the home loans

Each home loan will have some or all of the features set out below.

- All home loans will have either a variable or a fixed interest rate.
- The borrower may repay some or the entire home loan at any time. If the home loan has a variable interest rate, the borrower can repay the entire loan without paying an early repayment recovery or fee. If the home loan has a fixed interest rate, the borrower may repay up to 5 per cent. of the balance outstanding on the loan each year of the fixed rate period without paying an early repayment recovery, but an administration fee may apply. Early repayment may be by a lump sum, or by increasing the regular repayments or by reducing the loan term. This right is not cumulative. For example, if the borrower has not made an early repayment in the first year of the fixed rate period, he or she does not have the right to pay up to 10 per cent. in the next year. If the borrower wishes to repay more than 5 per cent. of the balance owing on his or her loan, he or she may be charged an early repayment recovery and an administration fee.
- Where the borrower makes a lump sum repayment against the home loan, the borrower can elect to maintain the same payment and shorten the term; keep the maturity date and reduce payments; or increase payments and shorten the term.
- The borrower may change the residential property offered as security for the home loan if it meets the Seller's security criteria. For example, if the borrower sells the house, and buys another, the Seller may agree to take a mortgage over the new house as security for the borrower's existing home loan. Any increase to the borrower's lending is assessed under credit criteria and will be documented as a new home loan.
- The borrower may choose to split the total loan amount into multiple loans. More than one loan can be secured by the mortgage over the same residential property. Likewise, a home loan may be secured by mortgages over more than one residential property.
- The borrower may apply or receive an offer from the Seller to borrow more money above the originally approved loan amount. This will be subject to the Seller's credit criteria. If approved, either a new home loan is created, which includes both the original loan amount and the new amount being borrowed, or a separate home loan is created for the new amount being

borrowed only. The Seller may allow a borrower to borrow more money above the originally approved loan amount without requiring the borrower to sign a new loan agreement. A Loan Variation Letter is sent to the borrower confirming the new level of borrowing.

Repayment Options

The borrower may choose from the following types of repayment structures:

- "Table" or principal and interest payments: The Seller divides the total amount of principal and interest payable into equal repayments to be made over the loan term.
- "Straight-line" payments: The Seller divides the loan principal into equal amounts to be paid over the loan term. The Seller then charges interest on the amount owing on the loan at the time each regular payment is made. The amount of interest payable reduces as the principal amount owing reduces.
- "Interest only" payments: The borrower pays only interest on the principal amount of the loan. At the end of the term of the loan, the borrower repays the principal amount in full.

Loan renewals and modifications

Subject to the Seller's approval, borrowers may apply to change the terms of their home loan, for example, payments may be changed from weekly to fortnightly, or a variable interest rate may be changed to a fixed interest rate.

If approved, either a new loan will be established, or the terms of the existing loan will be varied. If a new loan is established, it will be used to repay the existing loan in the Seller's records. Subject to eligibility criteria being met, any new home loans made to a Borrower whose Housing Loan already forms part of the Housing Loan Portfolio will be sold into the Asset Pool. The new home loan will be subject to the same verification and scrutiny as the loans already in the Asset Pool.

Loan Variations

The Seller, in its discretion, may agree with a borrower from time to time to vary the terms and conditions of a loan without following the underwriting procedures described in this section. Such loan variations include changes to the interest rate and reductions in the term of the loan. See "*Summary of the Principal Documents – Mortgage Sale Agreement – Product Switches, Further Advances and Cash Redraws*" for more information in relation to the impact of certain variations to loans.

Interest-only periods

A borrower may apply for an interest-only loan of up to 5 years for residential investment property or 2 years for owner occupied. At the end of this period, the borrower must repay the loan in full. Subject to the Seller's approval, the borrower may apply to transfer the loan into a "table" or "straight-line" loan or may apply for a further interest-only loan.

Additional features

The Seller may offer new types of home loans at any time that are not described in this Prospectus. The Seller may also change, remove or add to the features, terms or fees of a home loan at any time.

The Seller may offer interest rate discount specials, from time to time, subject to the borrower meeting certain criteria defined by the Seller. For example, the borrower may be required to have a loan-to-value ratio less than a level defined by the Seller.

The Seller may allow the Borrower to modify certain terms and amounts of their loan online, subject to the Borrower meeting certain criteria defined by the Seller.

Origination process

The Asset Pool includes a portfolio of home loans with fixed or variable interest rates, originated by the Seller to both new and existing borrowers.

The Seller originates home loans in the following ways:

- Through its own established distribution network, including branches, business relationship managers, mobile managers and contact centres.
- Through approved mortgage advisers. The mortgage advisers must meet the Seller's selection criteria and accreditation process before they are able to promote and initiate home loan applications on behalf of the Seller. Each mortgage adviser must be registered as a financial service provider under the Financial Service Providers (Registration and Dispute Resolution) Act 2008. All applications referred by mortgage advisers must meet the Seller's credit criteria and processes, and are managed by the Seller directly once the loan has been drawn down.

Approval and underwriting process

Applications for new home loans are processed in accordance with the Seller's credit approval policies. These approval policies may be amended or reviewed by the Seller at any time.

The Seller may charge a different interest rate, higher or lower, on home loans depending on the borrower's loan-to-value ratio. A low equity premium fee may be charged where the loan-to-value ratio is greater than 80 per cent. However, all borrowers must meet the Seller's credit approval criteria set out in this section.

Home loans secured by residential property may be used for any legal purpose.

Home loans secured by bare land only are not included in the Asset Pool. Home loans to build a residential dwelling are not included in the Asset Pool until the dwelling has been completed.

There is no minimum amount that may be borrowed under a home loan. There is no maximum amount that may be borrowed, provided the borrower meets the Seller's credit criteria, including their ability to repay the lending and the suitability of any security.

Unless specified in this Prospectus, home loans sold into the Asset Pool will have an outstanding balance no greater than NZ\$2,000,000.

The type of residential property and its tenure and occupancy status will determine the maximum loan-to-value ratio. The Seller, against a defined standard residential property, that is owner occupied, currently generally lends up to a maximum of 90 per cent of the market value of the property including capitalised amounts. For residential investment properties the Seller lends up to a maximum of 65 per cent. of the market value of the property.

The minimum term for a home loan is one month.

The maximum term for a term home loan is 30 years.

Process for verification of application details

The Seller:

- Verifies the identity of the borrower and any application details.
- Assesses the borrower's ability to repay the loan, and the suitability of the home loan for the use the borrower intends.
- Determines the value of the residential property offered as security for the home loan.

Borrowers provide proof of identity and evidence of employment and income.

For an employed applicant, the Seller confirms employment and income levels by obtaining recent payslips or confirmation of salary being credited to a bank account.

For a self-employed applicant, or a business applicant, the Seller checks both annual accounts and tax assessments.

For first time borrowers, the Seller checks savings history.

Where applicants are refinancing borrowing with another financial institution, the Seller checks the last three months' loan statements with that other financial institution to ensure the applicant has been regularly making loan repayments.

The Seller also checks the credit history of any existing borrowing from the Seller.

The Seller completes external credit checks on the borrower to determine whether there are any loan defaults by that borrower with other parties.

Assessing ability to repay

Once the applicant's details have been verified, the Seller assesses his or her ability to repay the proposed home loan. The applicant's income must be sufficient to cover all commitments, including the proposed home loan, along with any risk factors identified in the applicant's income, savings or credit history. This includes the application of a servicing sensitivity rate to ensure that the applicant's income remains sufficient to cover all commitments should interest rates increase.

A credit decision is made using one of the following processes:

- **Credit scorecard:** A credit scorecard system developed by the Seller applies the Seller's credit assessment policy. The credit scorecard returns a decision either to approve, reject or refer for a further approval. An application is referred to the credit assessment team if certain risk factors, including loan size or ability to repay, are present that require the application to be further assessed. The credit score determined by this system is based on historical performance data from the Seller's home loan portfolio.
- **Credit approval authority:** Home loan applications that are referred by the credit scorecard or through a manual escalation process are assessed by a credit manager in the credit assessment team. Each credit manager is allocated a credit approval authority based on their level of experience and past performance. Loans that have certain characteristics, such as a large loan size, are assessed or verified by more experienced credit managers.
- **Retail Risk assessment:** Where a home loan application is outside of the credit approval authority of the credit assessment team, it is formally escalated to the Retail Risk team for a decision to approve or reject. The Retail Risk team also assess applications rejected by the credit scorecard system.

The Seller monitors the quality of all lending decisions and approvals.

Valuation of residential property

As part of the credit decision process a loan-to-value ratio is calculated. The loan-to-value ratio is the ratio of the loan amount to the value of the residential property offered as security. The maximum loan-to-value ratio permitted for any home loan is determined under the Seller's credit policy and depends on the size of the proposed loan and the nature and location of the residential property. In most cases, where the residential property is owner occupied it will not currently exceed 90 per cent, however, in limited circumstances where approved by the Seller, it may exceed 90 per cent. For new standalone residential investment properties it will not exceed 65 per cent.

Where more than one property is offered as security for a home loan, and one of these properties occupancy status is a residential investment, the sum of the valuations for all the properties is assessed against the sum of all housing debt secured by those properties, and the maximum loan-to-value ratio the Seller can secure is based on the sum of 85 per cent. of the market value of the owner occupied property and 65 per cent. of the market value of the residential investment property.

The valuation methods used by the Seller to calculate the loan-to-value ratio of the residential property offered as security are as follows and depend on the valuation type being suitable for the loan-to-value ratio range and the age of the valuation:

- Valuation by an appraiser: by using the value of the residential property determined by a qualified professional appraiser. The Seller requires a valuation by an appraiser:
 - where the nature of the property is of a type defined in the Seller's credit policy as requiring a valuation by an appraiser;
 - if the loan-to-value ratio exceeds 80 per cent. The requirement for an appraiser valuation may be waived in the case of a 'top up' loan; or
 - in circumstances where, although the loan-to-value ratio is less than 80 per cent, the purchase price specified in the contract of sale for a property may exceed thresholds set by the Seller for the region where the property is situated ("**Regional Threshold**").
- Contract of sale: by using the value specified in the contract of sale (as validated against the automated valuation model) for the residential property. This method is used where the loan-to-value ratio is less than 80 per cent, excluding specific property types as defined in the Seller's credit policy.
- Automated valuation model: by using the value obtained from an automated valuation model operated by Core Logic (NZ) Limited which uses the property's address and key features and provides a statistically driven valuation. This method is used where the loan-to-value ratio is less than 80 per cent, excluding specific property types as defined in the Seller's credit policy.

An offer of finance is then made and is subject to any loan conditions being met. The amount of the home loan offered will depend on that applicant's ability to repay and the loan-to-value ratio.

Servicing

The Servicer

ANZ New Zealand (the Servicer) will be responsible for servicing the Housing Loans in the Housing Loan Portfolio on behalf of the Covered Bond Guarantor.

General

The Servicer is contractually obligated to administer and service the Housing Loans in the Housing Loan Portfolio:

- in such a manner and with the same level of skill, care and diligence as would a Prudent Mortgage Lender; and
- in accordance with the Servicing Procedures.

Servicing procedures include: managing and servicing the features and facilities available under the Housing Loans in the Housing Loan Portfolio, the management of delinquent mortgage loans, responding to customer inquiries, and compliance with consumer regulations. See "*Legal Aspects of the Housing Loan Portfolio – Consumer Legislation*" for more information in relation to the Credit Contracts and Consumer Finance Legislation.

See "*Summary of the Principal Documents – Servicing Agreement*" for a more detailed description of the undertakings, remuneration and removal or resignation of the Servicer.

Delegation by the Servicer

The Servicer has the power to delegate or subcontract the performance of all or any of its powers and obligations under the Servicing Agreement to third parties. References to the Servicer servicing the Housing Loans in the Housing Loan Portfolio should be construed accordingly. Despite any delegation, the Servicer remains responsible and liable for the performance of its obligations under the Servicing Agreement.

Collection, recoveries and enforcement procedures

Borrowers must make the minimum payment due under the terms and conditions of the loans on each scheduled instalment due date. A borrower may elect to make his or her repayments weekly, bi-weekly or monthly. Payment is typically made by direct debit from a nominated ANZ New Zealand bank account.

A loan is subject to action (as described below) in relation to delinquent payment whenever the repayment is not paid on the instalment due date.

Borrowers whose loans are in arrears will receive reminders via text messaging, direct phone contact and by letter. The frequency of these delinquency reminders will vary according to the number of days the loan is delinquent and the risk grading allocated to the relevant loan.

Each borrower is given a customer level risk grade. The grading process considers product level performance including factors such as previous arrears history, utilisation and payment behaviours.

The Servicer's collections system identifies loan accounts which are delinquent and allocates overdue loans to collection officers for action.

Actions taken by the Servicer in relation to delinquent accounts will be determined according to a number of factors, including:

- delinquency history;
- equity in the property;
- past repayment history;
- prior arrangements made with the borrower to meet overdue payments; and
- the reason for arrears (e.g., illness, unemployment, over-commitment).

The Servicer may make a special arrangement with a borrower to temporarily modify the borrower's payment schedule. In considering such an arrangement, the Servicer consults the borrower and considers the causes of missed payments with the objective of returning the loan to the original repayment schedule at the earliest opportunity.

If the borrower is unwilling or unable to satisfy the arrears, a letter of demand is sent to the customer requiring payment of the outstanding debt owing to the Servicer within 10 working days from date of issue.

If the demand expires unsatisfied, to recover the money owing, the Servicer may look to enforce the security it holds over the property owned by the borrower or call upon a guarantor.

If satisfactory arrangements cannot be made to rectify a delinquent loan, legal notices are issued and recovery action is initiated by the Servicer. Recovery action is arranged by recoveries staff in conjunction with internal or external legal advisers. Recovery actions include:

- voluntary sale by the borrower;
- a mortgagee sale; and
- legal action against borrowers, including summary judgment, order of examination, and bankruptcy.

On expiry of the demand notice period, the Servicer must serve on the current mortgagor (who is usually also the borrower) a notice under section 119 of the Property Law Act 2007 ("**Notice**") before it can exercise any of its powers under the mortgage. If the Servicer is proposing to recover any outstanding balance after the sale from a third party (most commonly a guarantor) they must also serve a notice under section 122 of the Property Law Act 2007 ("**Notice**") on that person before exercising the power of sale. The Notice(s) must outline the nature and extent of the default (usually, the failure

by the borrower to pay the agreed loan instalments), the actions required to remedy the default (usually, payment of the loan arrears, interest and costs) and the consequences that will occur if the debtor fails to comply with the Notice (usually, acceleration of the loan and sale of the mortgaged property by the Servicer).

By law, the Servicer must allow 20 working days for the debtor to remedy the default from the date of service of the Notice.

If, on expiry of the Notice, the default has not been remedied, the Servicer may then exercise its power of sale to recover all amounts owed under the loan. The recoveries officer will instruct solicitors to conduct the mortgagee sale process on the Servicer's behalf in accordance with its standard procedures.

The Servicer's solicitors will seek proposals for the marketing of the property. A registered valuation will be ordered by the recoveries officer in order to set a reserve for sale of the property by way of auction or private sale.

The Servicer may be willing to cooperate with the debtor to allow the borrower to sell the property by his or her self. Whether the Servicer is willing to delay mortgagee sale action to allow a debtor initiated sale is dependent on a number of factors, including the amount of the debt, the age of the arrears, amount of equity in the property, and the reputational risk to the Servicer.

On completion of a sale, proceeds from the sale (whether by debtor initiated sale or mortgagee sale) are paid out in a specific order. First, all expenses incurred in selling the property must be paid. These expenses include legal fees and real estate agent fees. Secondly, each mortgagee must be paid the amount owing under its mortgage according to the order in which each mortgage is registered over the title. Finally, if there is any surplus remaining, this must be paid to the mortgagor.

If the proceeds from the sale do not repay the debt to the Servicer in full and the debtor is unable or unwilling to enter into a repayment arrangement for the shortfall debt, the Servicer may elect to commence court proceedings against the debtor. A shortfall demand will be issued after settlement of the property has taken place. Court proceedings against the debtor will be commenced after demand calling up the shortfall debt in full has expired. The debtor is given 10 working days to satisfy the demand.

If the demand expires unsatisfied, the recoveries officer may instruct a solicitor to obtain a Court order that the debtor owes the debt to the Servicer, usually by summary judgment. Provided the debtor does not defend the Court action, once the order has been obtained, the Servicer can seek to enforce the judgment through a number of means. These include an order for examination, a charging order, an attachment order, a garnishee order, a distress warrant, and bankruptcy.

The Servicer is subject to "lender responsibility principles" (discussed further at page 243) which generally require lenders to exercise the care, diligence and skill of a responsible lender when dealing with borrowers and guarantors.

Bankruptcy

Once judgment has been obtained, the Servicer can proceed to bankrupt the debtor. The Servicer will instruct its solicitors to commence bankruptcy proceedings. The Servicer's solicitors will apply to the Court to issue a bankruptcy notice.

The bankruptcy notice must be served on the debtor within one month from the date on which it is issued by the Court and requires the debtor to pay the specified debt within ten working days. Failure by the debtor to comply with the notice (that is, to make payment of the debt within the allotted time) will constitute an act of bankruptcy.

The commencement date of bankruptcy is the date and time that the Court pronounces the customer bankrupt.

The Servicer's collection and enforcement procedures may change from time to time in accordance with business judgment, internal policy and changes to legislation and guidelines established by the relevant regulatory bodies.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The consolidated balance sheet information of the ANZ New Zealand Group as at 31 March 2018 and 31 March 2017 and the income statement data for the six month periods ended 31 March 2018 and 31 March 2017 have been derived from the ANZ New Zealand Group unaudited consolidated financial statements. The consolidated balance sheet information of the ANZ New Zealand Group as at 30 September 2017 and 2016 and the income statement data for the fiscal years ended 30 September 2017 and 2016 have been derived from the ANZ New Zealand Audited Consolidated Financial Statements. The financial information contained in this Prospectus should be read in conjunction with, and is qualified by reference to, the ANZ New Zealand Financial Statements.

The ANZ New Zealand Financial Statements and the financial information included herein are prepared in accordance with NZ IFRS. Compliance with NZ IFRS for the ANZ New Zealand Group ensures compliance with IFRS. IFRS differs in some respects from U.S. GAAP.

Summary consolidated income statement

NZ\$ millions (unless otherwise stated)	Six months ended 31 March		Year ended 30 September		
	2018 US\$ millions ¹	2018	2017	2017	2016
Interest income	2,295	3,170	3,075	6,198	6,423
Interest expense	1,168	1,614	1,562	3,161	3,421
Net interest income	1,127	1,556	1,513	3,037	3,002
Other operating income	425	587	435	938	852
Net operating income	1,552	2,143	1,948	3,975	3,854
Operating expenses	541	747	730	1,468	1,599
Profit before credit impairment and income tax	1,011	1,396	1,218	2,507	2,255
Credit impairment charge	52	72	42	62	150
Profit before income tax	959	1,324	1,176	2,445	2,105
Income tax expense	265	366	330	680	570
Profit after income tax	694	958	846	1,765	1,535

(1) For the convenience of the reader, the financial data for the six month period ended 31 March 2018, has been translated from NZ dollars into U.S. dollars using the noon buying rate for 31 March 2018, of NZ\$1.00=US\$0.7239.

Summary consolidated balance sheet

NZ\$ millions (unless otherwise stated)	As at 31 March		As at 30 September		
	2018	2018	2017	2017	2016
	US\$ millions ¹				
Assets					
Cash	1,992	2,752	1,894	2,338	2,274
Settlement balances receivable	552	763	678	536	396
Collateral paid	1,183	1,634	1,642	1,415	2,310
Trading securities	6,092	8,416	10,840	7,663	11,979
Investments backing insurance contract liabilities	110	152	145	123	119
Derivative financial instruments	5,898	8,147	14,146	9,878	21,110
Current tax assets	11	15	70	-	-
Available-for-sale assets	4,784	6,609	3,729	6,360	2,859
Net loans and advances	86,614	119,649	114,944	117,627	114,623
Assets held for sale ²	2,335	3,225	2,837	3,065	-
Other assets	515	711	618	683	701
Life insurance contract assets	484	669	583	636	630
Investment in associates	-	-	7	7	7
Premises and equipment	256	354	378	367	387
Goodwill and other intangibles	2,364	3,266	3,290	3,275	3,424
Total assets	113,190	156,362	155,801	153,973	160,819
Liabilities					
Settlement balances payable	1,346	1,860	1,784	1,840	1,771
Collateral received	550	760	401	613	529
Deposits and other borrowings	76,791	106,080	99,689	101,657	99,066
Derivative financial instruments	5,622	7,766	14,508	9,826	21,956
Current tax liabilities	-	-	-	39	21
Deferred tax liabilities	150	207	162	187	145
Liabilities held for sale ²	736	1,017	1,328	1,088	-
Payables and other liabilities	799	1,104	1,084	1,151	1,119
Employee entitlements and other provisions	130	179	188	185	206
Unsubordinated debt	15,326	21,172	20,601	21,323	20,014
Subordinated debt	2,377	3,284	3,283	3,283	3,282
Total liabilities	103,827	143,429	143,028	141,192	148,109
Net assets	9,363	12,933	12,773	12,781	12,710
Equity					
Share capital	6,434	8,888	8,888	8,888	8,888
Reserves	33	46	55	48	62
Retained earnings	2,896	3,999	3,830	3,845	3,760
Total equity	9,363	12,933	12,773	12,781	12,710

- (1) For the convenience of the reader, the financial data for the period ended 31 March 2018, has been translated from NZ dollars into U.S. dollars using the noon buying rate for 31 March 2018, of NZ\$1.00=US\$0.7239.
- (2) Assets and liabilities classified as held for sale include the assets and liabilities of UDC and the ANZ New Zealand Group's investment in Paymark Limited. These are presented separately on the ANZ New Zealand Group's balance sheet.

FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be in either bearer form, with or without receipts, interest coupons and/or talons attached, or registered form, without receipts, interest coupons and/or talons attached. Bearer Covered Bonds will be issued outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**) and Registered Covered Bonds will be issued both in reliance on the exemptions from registration provided by Regulation S and in reliance on Rule 144A.

Bearer Covered Bonds

Each Tranche of Bearer Covered Bonds will be initially issued in the form of a temporary global covered bond without receipts and interest coupons attached (a "**Temporary Global Covered Bond**") which will:

- if the Bearer Global Covered Bonds (as defined below) are issued in new global covered bond ("**NGCB**") form, be delivered on or prior to the issue date of the relevant Tranche to a common safekeeper (the "**Common Safekeeper**") (which, in respect of NGCBs that are not Eurosystem-eligible, will be the Principal Paying Agent) for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"); and
- if the Bearer Global Covered Bonds are not issued in NGCB form, be delivered on or prior to the issue date of the relevant Tranche to a common depository (the "**Common Depository**") for Euroclear and Clearstream, Luxembourg.

Bearer Covered Bonds will only be delivered outside the United States and its possessions.

Whilst any Bearer Covered Bond is represented by a Temporary Global Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of the Bearer Covered Bonds due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Covered Bond if the Temporary Global Covered Bond is not issued in NGCB form) only outside the United States and its possessions and to the extent that certification (in a form to be provided by Euroclear and/or Clearstream, Luxembourg) to the effect that the beneficial owners of interests in such Bearer Covered Bond are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the "**Exchange Date**"), which is 40 days after a Temporary Global Covered Bond is issued, interests in such Temporary Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a permanent global covered bond without receipts and interest coupons attached (a "**Permanent Global Covered Bond**" and, together with the Temporary Global Covered Bonds, the "**Bearer Global Covered Bonds**" and each a "**Bearer Global Covered Bond**") of the same Series or (b) Bearer Definitive Covered Bonds of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of Bearer Definitive Covered Bonds, to such notice period as is specified in the applicable Final Terms), in each case against certification of non-U.S. beneficial ownership as described above unless such certification has already been given. Purchasers in the United States and certain U.S. persons will not be able to receive Bearer Definitive Covered Bonds or interests in the Permanent Global Covered Bond. The holder of a Temporary Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Covered Bond for an interest in a Permanent Global Covered Bond or for Bearer Definitive Covered Bonds is improperly withheld or refused. Bearer Covered Bonds will be subject to certain restrictions on transfer set forth therein or will bear a legend regarding such restrictions.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Covered Bond will be made outside the United States and its possessions and through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Global Covered Bond (if the Permanent Global Covered Bond is not issued in NGCB form) without any requirement for certification.

Interests in a Permanent Global Covered Bond will be exchanged (free of charge) by the Issuer, in whole but not in part, only at the option of the holder of such Permanent Global Covered Bond, for Definitive Covered Bonds and/or (in the case of a Series comprising both Bearer Covered Bonds and Registered Covered Bonds and if so specified in the applicable Final Terms) Registered Covered Bonds: (a) upon not less than 60 days' written notice being given to the Principal Paying Agent by Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in this Permanent Bearer Global Covered Bond), or (b) upon the occurrence of an Exchange Event. An "**Exchange Event**" means the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, whether statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available.

The Issuer will promptly give notice to Covered Bondholders of each Series of Permanent Global Covered Bond in accordance with Condition 14 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear, Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) or the Bond Trustee may give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The exchange 'upon not less than 60 days' written notice' option as described in paragraph (a) above should not be expressed to be applicable if the Covered Bonds are issued in denominations comprising a minimum Specified Denomination (such as EUR 100,000 (or its equivalent in any other currency)) plus one or more higher integral multiples of another smaller amount (such as EUR 1,000 (or its equivalent in another currency)). Furthermore, such denomination construction is not permitted in relation to any issue of Covered Bonds which is to be represented on issue by a Temporary Bearer Global Covered Bond exchangeable for Bearer Definitive Covered Bonds, as described above.

Bearer Global Covered Bonds, Bearer Definitive Covered Bonds and any Coupons, Talons or Receipts attached thereto will be issued pursuant to the Principal Agency Agreement.

The following legend will appear on all Bearer Covered Bonds that have an original maturity of more than one year and on all receipts, talons and interest coupons relating to such Bearer Covered Bonds:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that U.S. persons (as defined for U.S. federal tax purposes), with certain exceptions, will not be entitled to deduct any loss on Bearer Covered Bonds, receipts, talons or interest coupons and will not be entitled to capital gains treatment of any gain on any sale or other disposition in respect of such Bearer Covered Bonds, receipts, talons or interest coupons.

Covered Bonds which are represented by a Bearer Global Covered Bond will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Euroclear or Clearstream, Luxembourg, as the case may be, will be notified whether or not each NGCB or Registered Covered Bond to be held via the new safekeeping structure is intended to be held in a manner which would allow Eurosystem eligibility. Note that the designation that securities are "intended to be held in a manner which would allow Eurosystem eligibility" simply means that the securities are intended upon issue to be deposited with one of Euroclear or Clearstream, Luxembourg as common safekeeper and does not necessarily mean that the securities will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Registered Covered Bonds

The Registered Covered Bonds of each Tranche offered and sold in reliance on Regulation S, which will be sold to non U.S., persons outside the United States, will initially be represented by a global

covered bond in registered form (a "**Regulation S Global Covered Bond**"). Prior to expiry of the Distribution Compliance Period applicable to each Tranche of Covered Bonds, beneficial interests in a Regulation S Global Covered Bond may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 1 (*Form, Denomination and Title*) and may not be held otherwise than through Euroclear or Clearstream, Luxembourg, and such Regulation S Global Covered Bond will bear a legend regarding such restrictions on transfer (see "*Subscription and Sale and Transfer and Selling Restrictions*").

The Registered Covered Bonds of each Tranche offered and sold in the United States or to U.S. persons may only be offered and sold in private transactions to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act ("**QIBs**").

The Registered Covered Bonds of each Tranche sold to QIBs will be represented by a global Covered Bond in registered form (a "**Rule 144A Global Covered Bond**" and, together with a Regulation S Global Covered Bond, each a "**Registered Global Covered Bond**").

Registered Global Covered Bonds will either (i) in the case of a Rule 144A Global Covered Bond which is not intended to be held under the new safekeeping structure ("**NSS**"), be deposited with a custodian for, and registered in the name of a nominee of, the Depository Trust Company ("**DTC**"); (ii) in the case of a Rule 144A Global Covered Bond which is intended to be held under the NSS, be registered in the name of a nominee of the common safekeeper for Euroclear and/or Clearstream, Luxembourg; (iii) in the case of a Regulation S Global Covered Bond which is not intended to be held under the NSS, be deposited with a common depository for, and registered in the name of a nominee of, Euroclear and/or Clearstream, Luxembourg; or (iv) in the case of a Regulation S Global Covered Bond which is intended to be held under the NSS, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg, in each case as specified in the applicable Final Terms. Persons holding beneficial interests in the Registered Global Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Covered Bonds in fully registered form.

The Rule 144A Global Covered Bonds will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Covered Bonds will, in the absence of any provision to the contrary, be made to the person shown on the Register as the registered holder of the Registered Global Covered Bonds. None of the Issuers, the Guarantor, the Covered Bond Guarantor, the Bond Trustee, any Paying Agent or the Registrars will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Covered Bonds in definitive form will, in the absence of any provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6(e) (*Payments in respect of Registered Covered Bonds*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Registered Definitive Covered Bonds without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. The Issuer will promptly give notice to Covered Bondholders of each Series of Registered Global Covered Bonds in accordance with Condition 14 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear, Clearstream, Luxembourg (acting on the instructions of any registered holder of an interest in such Registered Global Covered Bond) or the Bond Trustee may give notice to the relevant Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the relevant Registrar.

Definitive Rule 144A Covered Bonds will be issued only in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency).

Transfer of Interests

Interests in a Registered Covered Bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in a Registered Global Covered Bond. No beneficial owner of an interest in a Registered Global Covered Bond will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. Registered Covered Bonds are also subject to the restrictions on transfer set forth herein and will bear a legend regarding such restrictions (see "*Subscription and Sale and Transfer and Selling Restrictions*").

General

Pursuant to the Principal Agency Agreement (as defined under "*Terms and Conditions of the Covered Bonds*"), the Principal Paying Agent shall arrange that, where a further Tranche of Covered Bonds is issued which is intended to form a single Series with an existing Tranche of Covered Bonds, the Covered Bonds of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Covered Bonds of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S) applicable to the Covered Bonds of such Tranche.

Any reference herein to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any successor operator and/or successor clearing system and/or additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Relevant Issuer, the Principal Paying Agent and the Bond Trustee.

No Covered Bondholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuers, the Guarantor or the Covered Bond Guarantor unless the Bond Trustee or, as the case may be, the Security Trustee, having become so bound to proceed, fails so to do within a reasonable period and the failure shall be continuing.

FORM OF FINAL TERMS

Prohibition of Sales to EEA Retail Investors: The Covered Bonds 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"); (ii) a customer within the meaning of Directive 2002/92/EC, as amended ("IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "Prospectus Directive"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds 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 Dealer's/the Managers'/each relevant Manager's] product approval process as [a] MiFID II [(as defined below)] "manufacturer[s]", the target market assessment completed by the relevant [Dealer/Managers/Manager] in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "MiFID II")][MiFID II]; and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Covered Bonds (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 Covered Bonds (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 an EU Member State. The Issuer 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 Covered Bonds described in this legend).]

Dated [●]

[ANZ Bank New Zealand Limited/ANZ New Zealand (Int'l) Limited]

**Issue of [Aggregate Principal Amount of Tranche] [Title of Covered Bonds]
[unconditionally guaranteed by ANZ Bank New Zealand Limited and]
irrevocably and unconditionally guaranteed as to payment of principal and interest by
ANZNZ Covered Bond Trust Limited under the
€8,000,000,000 Covered Bond Programme**

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the prospectus dated 3 August 2018 [and the supplement[s] to it dated [●][and [●]] which [together] constitute[s] a base prospectus the ("Prospectus") for the purposes of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the "Prospectus Directive"). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus [as so supplemented]. Full information on the Issuer[, the Guarantor] and the Covered Bond Guarantor and the offer of the Covered Bonds is only available on the basis of the combination of this Final Terms and the Prospectus [as so supplemented]. The Prospectus has been published on the website of the London Stock Exchange in accordance with Article 14 at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.]

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "Conditions") set forth in the prospectus dated 3 August 2018 which are incorporated by reference

in the prospectus dated 3 August 2018. This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the "**Prospectus Directive**") and must be read in conjunction with the prospectus dated 3 August 2018 [and the supplement[s] to it dated [●] [and [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the "**Prospectus**"), including the Conditions incorporated by reference in the Prospectus. Full information on the Issuer[, the Guarantor] and the Covered Bond Guarantor and the offer of the Covered Bonds is only available on the basis of the combination of this Final Terms and the Prospectus [as so supplemented]. The Prospectus has been published on the website of the London Stock Exchange in accordance with Article 14 at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.]

1. (a) Branch..... [London][Not Applicable]
- (b) Series Number:..... [●]
- (c) Tranche Number: [●]
- (d) Date on which the Covered Bonds will be consolidated and form a single Series:..... [The Covered Bonds will be consolidated and form a single Series with [●] on [the Issue Date]/[exchange of the Temporary Global Covered Bond for interests in the Permanent Global Covered Bond, as referred to in paragraph [●] below], which is expected to occur on or about [●]]/[Not Applicable]
2. Specified Currency:..... [●]
3. Aggregate Principal Amount of Covered Bonds:.....
 - (a) Series:..... [●]
 - (b) Tranche: [●]
4. Issue Price: [●]% of the Aggregate Principal Amount [plus accrued interest from [●]]
5. (a) Specified Denominations: [●]/[€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No Covered Bonds in definitive form will be issued with a denomination above €199,000]/[US\$200,000 and integral multiples of US\$1,000 in excess thereof]
- (b) Calculation Amount: [●]
6. (a) Issue Date:..... [●]
- (b) Interest Commencement Date: [●]/[Issue Date]/[Not Applicable]
7. (a) Final Maturity Date:..... [●]/[Interest Payment Date falling in or nearest to [●]]
- (b) Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee: [●]/[Interest Payment Date falling in or nearest to [●]]/[Not Applicable]
8. Interest Basis: [[●]% Fixed Rate]

[[●] +/- [●]% Floating Rate]

[Zero Coupon]

9. Redemption Basis: [99]/[100]/[101]% of their nominal amount
10. Payment Basis:
- (a) Instalment Covered Bonds: [Applicable/Not Applicable]
- (i) [Instalment Date(s): [●]
- (ii) Instalment Amount(s): [●]
- (b) Hard Bullet Covered Bonds: [Applicable/Not Applicable]
11. Change of Interest Basis: [●] [in accordance with paragraphs 14 and 15]
12. Put/Call Options: [Investor Put]
- [Issuer Call]
13. [Date of [Board] approval for [●] [and [●], respectively]]
issuance of Covered Bonds and
Guarantees obtained:

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14. Fixed Rate Covered Bond provisions: [Applicable/Not Applicable]
- (a) [Rate(s) of Interest: [●]% per annum payable in arrears on each Interest
Payment Date
- (b) Interest Payment Date(s): [●] in each year up to and including the Maturity
Date or the Extended Due for Payment Date, if
applicable
- (c) Fixed Coupon Amount(s): [●] per Calculation Amount
- (d) Broken Amount(s): [[●] per Calculation Amount, payable on the Interest
Amount falling [in/on] [●] / [Not Applicable]
- (e) Day Count Fraction: [Actual/Actual (ICMA)] [30/360]
- (f) [Determination Date(s): [[●] in each year] / [Not Applicable]]
15. Floating Rate Covered Bond [Applicable/Not Applicable]
provisions:
- (a) [Specified Period(s): [●]
- (b) Interest Payment Dates: [●][, subject to adjustment in accordance with the
Business Day Convention set out below]
- (c) Business Day Convention: [Floating Rate Convention/Following Business Day
Convention/Modified Following Business Day
Convention/Preceding Business Day Convention]
- (d) Additional Business Centre(s): [●]

- (e) Manner in which the Rate of Interest and Interest Amount are to be determined:..... [Screen Rate Determination/BBSW Covered Bonds] [Rate Determination/ISDA Covered Bonds/BKBM]
- (f) Party responsible for calculating the Rate of Interest and Interest Amount (if not the [Principal Paying Agent/Calculation Agent]):..... [●]
- (g) Screen Rate Determination: [Applicable/Not Applicable]
- (i) Reference Rate and Relevant Financial Centre:.... [Reference Rate: [●] month [●] [LIBOR]/[EURIBOR]/[STIBOR]/[HIBOR]/[SIBOR]/[TIBOR]/[BBSW]/[BKBM]]
 Relevant Financial Centre: [London]/ [Brussels]/ [Stockholm]/[Hong Kong]/[Singapore]/ [Tokyo] [Sydney]/[Wellington]/[Auckland]
- (ii) Interest Determination Date(s): [●]
- (iii) Relevant Screen Page: [●]
- (iv) Relevant Time and time zone: [●]
- (h) ISDA Determination: [Applicable/Not Applicable]
- Floating Rate Option: [●]
- Designated Maturity:..... [●]
- Reset Date: [●]
- (i) Margin(s): [+/-] [●]% per annum
- (j) Minimum Rate of Interest: [●]% per annum
- (k) Maximum Rate of Interest: [●]% per annum
- (l) Day Count Fraction:..... [Actual/Actual (ISDA)] [Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] 30E/360 (ISDA) [adjusted/not adjusted]]
16. Zero Coupon Covered Bond provisions:..... [Applicable/Not Applicable]

- (a) [Accrual Yield:..... [●]% per annum
- (b) Reference Price: [●]
- (c) Day Count Fraction in relation to [30/360]
Early Redemption Amounts:.....
[Actual/360]
[Actual/365]]

PROVISIONS RELATING TO REDEMPTION

- 17. Notice periods for Condition 5(b) Minimum period: [30] days
(*Redemption for tax reasons*) or
Condition 5(e) (*Redemption due to* Maximum period: [60] days
illegality).....
- 18. Redemption at the option of the Issuer [Applicable/Not Applicable]
(Call):

 - (a) [Optional Redemption Date(s) [●]
(Call):
 - (b) Series redeemable in part: [Yes/No]
 - (c) Optional Redemption Amount: [[●] per Calculation Amount]
 - (d) If redeemable in part:

 - (i) Minimum Redemption [●]
Amount:
 - (ii) Maximum Redemption [●]
Amount:

 - (e) Notice Period for Condition 5(c) Minimum period: [5] days
(*Redemption at the option of the*
Issuer (Issuer Call)): Maximum period: [30] days

- 19. Redemption at the option of the [Applicable/Not Applicable]
Covered Bondholders (Put):.....

 - (a) [Optional Redemption Date(s): [●]
 - (b) Optional Redemption Amount(s) [●] per Calculation Amount
of each Covered Bond:.....
 - (c) Notice Period for Condition 5(d) Minimum period: 15 days
(*Redemption at the option of the*
Covered Bondholders): Maximum period: [30] days

- 20. Final Redemption Amount of each [●] per Calculation Amount
Covered Bond:
- 21. Early Redemption Amount payable on [●] per Calculation Amount
redemption for tax reasons or illegality
or on event of default:

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

22. (a) Form of Covered Bonds: [Bearer Covered Bonds:
- [Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds [on 60 days' notice given at any time/only upon an Exchange Event]]
- [Temporary Global Covered Bond exchangeable for Bearer Definitive Covered Bonds]
- [Permanent Global Covered Bond exchangeable for Bearer Definitive Covered Bonds [on 60 days' notice given at any time/only after an Exchange Event]]
- [Registered Covered Bonds:
- Regulation S Global Covered Bond registered in the name of a nominee for [DTC/a common depositary/a common safekeeper for Euroclear and Clearstream, Luxembourg]/Rule 144A Global Covered Bond registered in the name of a nominee for [DTC/a common depositary/a common safekeeper for Euroclear and Clearstream, Luxembourg]]
- (b) Talons for future Coupons to be attached to Definitive Covered Bonds: [Yes, as the Covered Bonds have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]
- (c) Receipts to be attached to Instalment Covered Bonds which are Definitive Covered Bonds: [Yes/No]
23. Additional Financial Centre(s): [●]/[Not applicable]

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING:

- (a) Listing and admission to trading: [Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the regulated market of the London Stock Exchange and to the Official List of the Financial Conduct Authority with effect from [●].] / [Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the regulated market of the London Stock Exchange and to the Official List of the Financial Conduct Authority with effect from [●]]
- (b) Estimate of total expenses related to admission to trading: [●]

2. RATINGS:

- Ratings: The Covered Bonds to be issued [have been]/[are expected to be] rated:
- [Fitch Australia Pty Ltd: [●]]
- [Moody's Investors Service Pty Ltd: [●]]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE:

[Save for the fees payable to the [Dealers], so far as the Issuer[, the Guarantor] and the Covered Bond Guarantor are aware, no person involved in the offer of the Covered Bonds has an interest material to the offer. The [Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer[, the Guarantor], the Covered Bond Guarantor and their affiliates in the ordinary course of business] [●] [Not Applicable].

4. YIELD (FIXED RATE COVERED BONDS):

- Indication of yield (calculated at the Issue Date on the basis of the Issue Price): [●]

5. OPERATIONAL INFORMATION:

- (a) ISIN: [Regulation S: [●]]
Rule 144A: [●]
- (b) Common Code: [Regulation S: [●]]
Rule 144A: [●]
- (c) CUSIP [Regulation S: [●]]
Rule 144A: [●]

[(d)] Name(s) and address(es) of any clearing system(s) other than Euroclear, Clearstream, Luxembourg, DTC and the relevant identification number(s):
.....

[(e)] Delivery: Delivery [against/free of] payment

[(f)] Name and address of initial Paying Agent(s): [●]

[(g)] Names and addresses of additional Paying Agent(s) (if any): [●]

6. BENCHMARKS

Relevant Benchmark[s]: [[[●] / LIBOR / EURIBOR / STIBOR / HIBOR / SIBOR / TIBOR / BBSW / BKBM] 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]

7. DISTRIBUTION

U.S. Selling Restrictions: [Reg. S Compliance Category [1/2/3]; [TEFRA D/TEFRA C/TEFRA not applicable]

Signed on behalf of [ANZ New Zealand/ANZNIL]:

Signed on behalf of the Guarantor:

By:

By:

Duly authorised

Duly authorised

Signed on behalf of the Covered Bond Guarantor:

By:

Duly authorised

TERMS AND CONDITIONS OF THE COVERED BONDS

The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into, and (as completed by the applicable Final Terms in relation to a Tranche of Covered Bonds) apply to, each Global Covered Bond (as defined below) and each Definitive Covered Bond, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the Relevant Dealer(s) at the time of issue but, if not so permitted and agreed, such Definitive Covered Bond will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Covered Bond and Definitive Covered Bond.

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by ANZ New Zealand (Int'l) Limited ("**ANZNIL**"), whether acting through its head office or a branch, as specified in the relevant Final Terms (an "**Issuer**") and guaranteed by ANZ Bank New Zealand Limited (the "**Guarantor**") or ANZ Bank New Zealand Limited ("**ANZ New Zealand**" and together with ANZNIL, the "**Issuers**") constituted by a trust deed (such trust deed as modified and/or supplemented and/or restated from time to time, the "**Bond Trust Deed**") dated 11 February 2011 (the "**Programme Date**") made between the Issuers, the Guarantor, ANZNZ Covered Bond Trust Limited as covered bond guarantor (the "**Covered Bond Guarantor**") and Deutsche Trustee Company Limited as bond trustee (in such capacity, the "Bond Trustee", which expression shall include any successor as Bond Trustee).

Save as provided for in Conditions 9 (*Events of Default and Enforcement*) and 11 (*Meetings of Covered Bondholders, Modification, Waiver, Substitution and Legislative Exchange*), references herein to the Covered Bonds shall be references to the "**Covered Bonds**" of this Series and shall mean:

- (a) in relation to any Covered Bonds represented by a global covered bond in bearer form (a "**Bearer Global Covered Bond**") or a global covered bond in registered form (a "**Registered Global Covered Bond**"), each of them a "**Global Covered Bond**", units of the lowest Specified Denomination in the Specified Currency;
- (b) any Global Covered Bond;
- (c) any Definitive Covered Bonds in bearer form ("**Bearer Definitive Covered Bonds**") issued in exchange for a Bearer Global Covered Bond; and
- (d) any Definitive Covered Bonds in registered form ("**Registered Definitive Covered Bonds**") (whether or not issued in exchange for a Registered Global Covered Bond).

The Covered Bonds, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an amended and restated principal agency agreement (such amended and restated principal agency agreement as further amended and/or supplemented and/or restated from time to time the Principal Agency Agreement) dated 23 August 2012 and made between the Issuers, the Covered Bond Guarantor, the Guarantor, the Bond Trustee and Deutsche Bank AG, London Branch as principal paying agent and agent bank (in such capacity, the "**Principal Paying Agent**", which expression shall include any successor principal paying agent), Deutsche Bank Trust Company Americas as U.S. paying agent (in such capacity, the "**U.S. Paying Agent**" and together with the Principal Paying Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents), Deutsche Bank AG, London Branch as exchange agent (in such capacity, the "**Exchange Agent**", which expression shall include any successor exchange agent), Deutsche Bank Luxembourg S.A. as Luxembourg registrar (in such capacity, the "**Luxembourg Registrar**", which expression shall include any successor Luxembourg registrar), Deutsche Bank Trust Company Americas as U.S. registrar (in such capacity, the "**U.S. Registrar**", which expression shall include any successor U.S. registrar, and together with the Luxembourg Registrar, the "**Registrars**"), and Deutsche Bank Luxembourg S.A. and Deutsche Bank Trust Company Americas as transfer agents (in such capacity, each a "**Transfer Agent**" and together the "**Transfer Agents**", which expression shall include any additional or successor transfer agents). As used herein, "**Agents**" shall mean the Paying Agents, the Exchange Agent, the Registrars and the Transfer Agent, which expression shall include any additional or successor agents).

The Final Terms may specify any other agency agreement that applies to Covered Bonds, Receipts and Coupons issued by the Issuers.

Interest-bearing Bearer Definitive Covered Bonds have interest coupons ("**Coupons**") and, in the case of Covered Bonds which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Bearer Definitive Covered Bonds repayable in instalments have receipts ("**Receipts**") for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Covered Bonds (which include Registered Global Covered Bonds and/or Registered Definitive Covered Bonds as the case may be) and Global Covered Bonds do not have Receipts, Coupons or Talons attached on issue.

The Final Terms for this Covered Bond (or the relevant provisions thereof) are attached to or endorsed on this Covered Bond and complete these terms and conditions (the "**Conditions**"). References to the "applicable Final Terms" are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Covered Bond.

The Bond Trustee acts as trustee for the holders for the time being of the Covered Bonds (the "**Covered Bondholders**", which expression shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below), the holders of the Receipts (the "**Receiptholders**") and the holders of the Coupons (the "**Couponholders**", which expression shall, unless the context otherwise requires, include the holders of the Talons), and for holders of each other Series of Covered Bonds in accordance with the provisions of the Bond Trust Deed.

As used herein, "**Tranche**" means Covered Bonds which are identical in all respects (including as to listing or admission to trading) and "**Series**" means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are: (i) expressed to be consolidated and form a single series; and (ii) identical in all respects (including as to listing or admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Guarantor has (in respect of Covered Bonds issued by ANZNIL), in the Bond Trust Deed, unconditionally guaranteed the due and punctual payment of all amounts (including default interest) due from ANZNIL under or in respect of such Covered Bonds and the Bond Trust Deed, as and when the same shall become due and payable.

The Covered Bond Guarantor has, in the Bond Trust Deed, irrevocably and unconditionally guaranteed the due and punctual payment of Guaranteed Amounts in respect of the Covered Bonds as and when the same shall become due for payment on certain dates in accordance with the Bond Trust Deed ("**Due for Payment**"), but only after service of a Notice to Pay on the Covered Bond Guarantor following an Issuer Event of Default and service by the Bond Trustee of an Issuer Acceleration Notice on the Relevant Issuer and the Guarantor or the occurrence of Covered Bond Guarantor Event of Default and service by the Bond Trustee of a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor.

The security for the obligations of the Covered Bond Guarantor under the Covered Bond Guarantee and the other Programme Documents to which it is a party has been created in and pursuant to, and on the terms set out in, a security agreement governed by New Zealand law (such security as amended and/or supplemented and/or restated from time to time, the "**Security Deed**") dated the Programme Date and made between the Covered Bond Guarantor, the Issuers, the Guarantor, the Bond Trustee, New Zealand Permanent Trustees Limited (the "**Security Trustee**") and certain other Secured Creditors.

These Conditions include summaries of, and are subject to, the provisions of the Bond Trust Deed, the Security Deed and the Principal Agency Agreement (as applicable).

Copies of the Bond Trust Deed, the Security Deed, the Definitions Schedule (as defined below), the Principal Agency Agreement and each of the other Programme Documents are available for inspection and collection free of charge during normal business hours at the registered office for the time being of the Bond Trustee being at the Programme Date at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom and at the specified office of the Principal Paying Agent. Copies of the applicable Final Terms for all Covered Bonds of each Series are obtainable during normal business hours at the specified office of the Principal Paying Agent and any Covered Bondholder must produce evidence satisfactory to the Issuer and the Bond Trustee or, as the case may be, the relevant

Paying Agent as to its holding of Covered Bonds and identity. Copies of the applicable Final Terms for all Covered Bonds of each Series admitted to trading on the regulated market of the London Stock Exchange will be published on the website of the London Stock Exchange through a regulatory information service. The Covered Bondholders, the Receiptholders and the Couponholders are deemed to have notice of, are bound by, and are entitled to the benefit of, all the provisions of, and definitions contained in, the Bond Trust Deed, the Security Deed, the Definitions Schedule, the Principal Agency Agreement, each of the other Programme Documents and the applicable Final Terms which are applicable to them and to have notice of each set of Final Terms relating to each other Series.

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Conditions shall bear the meanings given to them in the Bond Trust Deed, the applicable Final Terms and/or the ANZNZ covered bond trust definitions schedule made between the parties to the Programme Documents on the Programme Date (the "**Definitions Schedule**") (as the same may be amended and/or supplemented and/or restated from time to time), a copy of each of which may be obtained as described above. In the event of inconsistency between the Bond Trust Deed and the Definitions Schedule, the Bond Trust Deed will prevail.

1. **Form, Denomination and Title**

The Covered Bonds are in bearer form or in registered form as specified in the applicable Final Terms and, in the case of Definitive Covered Bonds (being Bearer Definitive Covered Bond(s) and/or, as the context may require, Registered Definitive Covered Bond(s)), serially numbered, in the Specified Currency and the Specified Denomination(s) specified in the applicable Final Terms. Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination and Bearer Covered Bonds may not be exchanged for Registered Covered Bonds and *vice versa*.

This Covered Bond may be a Fixed Rate Covered Bond, a Floating Rate Covered Bond or a Zero Coupon Covered Bond, depending upon the Interest Basis shown in the applicable Final Terms, and subject, in each case, to confirmation from the Rating Agencies that the then current ratings of any outstanding Series of Covered Bonds will not be adversely affected by the issuance of this Covered Bond.

This Covered Bond may be an Instalment Covered Bond, depending upon the Redemption/Payment Basis shown in the applicable Final Terms and subject to confirmation from the Rating Agencies that the then current rating of any outstanding Series of Covered Bonds will not be adversely affected by the issuance of this Covered Bond.

Bearer Definitive Covered Bonds are issued with Coupons attached, unless they are Zero Coupon Covered Bonds, in which case references to Coupons and Couponholders in these Conditions are not applicable.

Bearer Definitive Covered Bonds are issued with Receipts, unless they are not Instalment Covered Bonds, in which case references to Receipts and Receiptholders in these Conditions are not applicable.

Subject as set out below, title to the Bearer Covered Bonds, Receipts and Coupons will pass by delivery and title to the Registered Covered Bonds will pass upon registration of transfers in accordance with the provisions of the Principal Agency Agreement. The Issuers, the Guarantor, the Covered Bond Guarantor, the Paying Agents, the Security Trustee and the Bond Trustee will (except as otherwise required by law) deem and treat the bearer of any Bearer Covered Bond, Receipt or Coupon and the registered holder of any Registered Covered Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Covered Bond, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Covered Bonds is represented by a Global Covered Bond held on behalf of, or, as the case may be, registered in the name of a common depository (in the case of a CGCB) or common safekeeper (in the case of a NGCB) for Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**")

and/or a custodian for the Depository Trust Company ("**DTC**") or its nominee, each person (other than Euroclear, Clearstream, Luxembourg or DTC) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg or DTC as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error and any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including, without limitation, Euroclear's EUCLID or Clearstream's Cedcom system) in accordance with its usual procedures and in which the holder of a particular nominal amount of the Covered Bonds is clearly identified with the amount of such holding) shall be treated by the Issuer, the Guarantor, (in the case of Covered Bonds issued by ANZNIL) the Covered Bond Guarantor, the Paying Agents, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds for all purposes other than with respect to the payment of principal or interest or other amounts on such nominal amount of such Covered Bonds, and, in the case of DTC or its nominee, voting, giving consents and making requests, for which purpose the bearer of the relevant Global Covered Bond or the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer, the Guarantor, the Covered Bond Guarantor, any Paying Agent, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expression "**Covered Bondholder**" and related expressions shall be construed accordingly.

Covered Bonds which are represented by a Global Covered Bond will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg or DTC, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits (but not in the case of any NGCB or any Global Covered Bond held under the NSS), be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Final Terms.

2. **Transfers of Registered Covered Bonds**

(a) *Transfers of interests in Registered Global Covered Bonds*

Transfers of beneficial interests in Rule 144A Global Covered Bonds (as defined below) and Regulation S Global Covered Bonds (as defined below) (together the "**Registered Global Covered Bonds**") will be effected by Euroclear, Clearstream, Luxembourg or DTC, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be exchangeable for Covered Bonds in definitive form or for a beneficial interest in another Registered Global Covered Bond only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of Euroclear, Clearstream, Luxembourg or DTC and in accordance with the terms and conditions specified in the Principal Agency Agreement. Transfers of a Registered Global Covered Bond registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Covered Bond, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

(b) *Transfers of Registered Covered Bonds in definitive form*

Subject as provided in Condition 2(g) below, upon the terms and subject to the conditions set forth in the Principal Agency Agreement, a Registered Covered Bond in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer: (i) the holder or holders must: (A) surrender the Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered Covered Bond) at the specified office of the relevant Registrar or, as the case may be, the relevant Transfer Agent, with the form of transfer thereon

duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing; and (B) complete and deposit such other certifications as may be required by the relevant Registrar or the relevant Transfer Agent; and (ii) the relevant Registrar or the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the relevant Issuer, the relevant Registrar and the relevant Transfer Agent may from time to time prescribe (the initial such regulations being set out in Schedule 5 to the Principal Agency Agreement).

Subject as provided above, the relevant Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Covered Bond in definitive form of a like aggregate nominal amount to the Registered Covered Bond (or the relevant part of the Registered Covered Bond) transferred. In the case of the transfer of part only of a Registered Covered Bond in definitive form, a new Registered Covered Bond in definitive form in respect of the balance of the Registered Covered Bond not transferred will be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the address specified by the transferor.

(c) ***Registration of transfer upon partial redemption***

In the event of a partial redemption of Covered Bonds under Condition 5 (*Redemption and Purchase*), the Issuer shall not be required to register the transfer of any Registered Covered Bond, or part of a Registered Covered Bond, called for partial redemption.

(d) ***Costs of registration***

Covered Bondholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, Tax or other governmental charge that may be imposed in relation to the registration.

(e) ***Transfers of interests in Regulation S Global Covered Bonds***

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Covered Bond to a transferee in the United States or who is a U.S. person will only be made:

- (i) upon receipt by the relevant Registrar of a written certification substantially in the form set out in the Principal Agency Agreement, amended as appropriate (a "**Transfer Certificate**"), copies of which are available from the specified office of the relevant Registrar or any Transfer Agent, from the transferor of the Covered Bond or beneficial interest therein to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or
- (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

In the case of (i) above, such transferee may take delivery through a Rule 144A Covered Bond in global or definitive form. Prior to the expiry of the applicable Distribution Compliance Period a beneficial interest in a Regulation S Covered Bond registered in the name of a

nominee for DTC may only be held through the accounts of Euroclear and Clearstream, Luxembourg. After expiry of the applicable Distribution Compliance Period (A) beneficial interests in a Regulation S Global Covered Bond registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (B) such certification requirements will no longer apply to such transfers.

(f) ***Transfers of interests in Rule 144A Covered Bonds***

Transfers of Rule 144A Covered Bond or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Global Covered Bond, upon receipt by the relevant Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that in the case of a Regulation S Covered Bond registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Covered Bonds being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or
- (ii) to a transferee who takes delivery of such interest through a Rule 144A Covered Bond where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Upon the transfer, exchange or replacement of Legended Covered Bonds, or upon specific request for removal of the Legend, the relevant Registrar shall deliver only Legended Covered Bonds or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(g) ***Exchanges and transfers of Registered Covered Bonds generally***

Holders of Registered Covered Bonds in definitive form may exchange such Covered Bonds for interests in a Registered Global Covered Bond of the same type at any time.

(h) ***Definitions***

In the Conditions, the following expressions shall have the following meanings:

"CGCB" means a Temporary Bearer Global Covered Bond or a Permanent Bearer Global Covered Bond, in either case in respect of which the applicable Final Terms specify that it is not a NGCB;

"Distribution Compliance Period" means the period that ends 40 days after the later of the commencement of the offering and the Issue Date;

"Legended Covered Bond" means Registered Covered Bonds (whether in definitive form or represented by a Registered Global Covered Bond) sold in private transactions to QIBs in accordance with the requirements of Rule 144A which bear a legend specifying certain restrictions on transfer (a **"Legend"**);

"NGCB" means a Temporary Bearer Global Covered Bond or a Permanent Bearer Global Covered Bond, in either case in respect of which the applicable Final Terms specify that it is a new global covered bond;

"**QIB**" means a qualified institutional buyer within the meaning of Rule 144A;

"**Regulation S**" means Regulation S under the Securities Act;

"Regulation S Global Covered Bond" means a Registered Global Covered Bond representing Covered Bonds sold outside the United States in reliance on Regulation S;

"**Rule 144A**" means Rule 144A under the Securities Act;

"**Rule 144A Global Covered Bond**" means a Registered Global Covered Bond representing Covered Bonds sold in the United States or to QIBs; and

"**Securities Act**" means the United States Securities Act of 1933, as amended.

3. **Status of the Covered Bonds, the Guarantee and the Covered Bond Guarantee**

(a) *Status of the Covered Bonds*

The Covered Bonds and any relative Receipts and Coupons constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* without any preference or priority among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (other than any obligation preferred by mandatory provisions of applicable law) from time to time outstanding.

(b) *Status of the Guarantee*

The due and punctual payment of principal and interest in respect of the Covered Bonds issued by ANZNIL and all other monies (including default interest) payable by ANZNIL under or pursuant to the Bond Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor pursuant to a guarantee (the "**Guarantee**") as set out in the Bond Trust Deed. The obligations of the Guarantor under the Guarantee constitute its direct, unconditional, unsubordinated and unsecured obligations and rank at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Guarantor, other than any obligations preferred by mandatory provisions of applicable law.

(c) *Status of the Covered Bond Guarantee*

The payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment has been unconditionally and irrevocably guaranteed by the Covered Bond Guarantor (the "**Covered Bond Guarantee**") as set out in the Bond Trust Deed. However, the Covered Bond Guarantor shall have no obligation under the Covered Bond Guarantee to pay any Guaranteed Amounts until the *occurrence of an Issuer Event of Default, service by the Bond* Trustee on the Issuer and the Guarantor of an Issuer Acceleration Notice and service by the Bond Trustee on the Covered Bond Guarantor of a Notice to Pay or, if earlier, following the occurrence of a Covered Bond Guarantor Event of Default and service by the Bond Trustee of a Covered Bond Guarantee Acceleration Notice. The obligations of the Covered Bond Guarantor under the Covered Bond Guarantee are (following an Issuer Event of Default, service of an Issuer Acceleration Notice and service of a Notice to Pay or a Covered Bond Guarantor Event of Default and service of a Covered Bond Guarantee Acceleration Notice), direct, unconditional (subject as provided in Condition 16 (*Limited Recourse and non-petition*)) and unsubordinated obligations of the Covered Bond Guarantor, which are secured as provided in the Security Deed.

Any payment made by the Covered Bond Guarantor under the Covered Bond Guarantee shall (unless such obligation shall have been discharged as a result of the payment of Excess Proceeds to the Bond Trustee pursuant to Condition 9 (*Events of Default and Enforcement*)) discharge pro tanto the obligations of the Issuer and the Guarantor (in the case of Covered Bonds issued by ANZNIL) in respect of such payment under the Covered Bonds, Receipts and Coupons and the Guarantee except where such payment has been declared void, voidable or otherwise recoverable in whole or in part and recovered from the Bond Trustee or the Covered Bondholders.

4. **Interest and other Calculations**

(a) ***Interest on Fixed Rate Covered Bonds***

- (i) Each Covered Bond where the Interest Basis in the applicable Final Terms is specified to be a Fixed Rate (a "**Fixed Rate Covered Bond**") bears interest on its Principal Amount Outstanding from, and including, the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrears on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the applicable Final Terms as specified Interest Payment Dates or, if no Interest Payment Date(s) is/are specified in the applicable Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown in the applicable Final Terms as the specified Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
- (ii) If a Fixed Coupon Amount or a Broken Amount is specified in the applicable Final Terms, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the applicable Final Terms.
- (iii) Calculation of Interest Amount: The Interest Amount payable in respect of each Covered Bond for any period for which a Fixed Coupon Amount or Broken Amount is not specified in the applicable Final Terms shall be calculated by applying the Rate of Interest to the Calculation Amount for such Covered Bond, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest unit of the Specified Currency (with halves being rounded up), save in the case of Yen, which shall be rounded down to the nearest Yen, and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Covered Bond divided by the Calculation Amount. For this purpose, a "**unit**" means, in the case of any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of Euro, means 0.01 Euro, as the case may be.
- (iv) Business Day Convention: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then that date will be adjusted in accordance with the Business Day Convention specified in the applicable Final Terms.

(b) ***Interest on Floating Rate Covered Bonds***

- (i) Interest Payment Dates: Each Covered Bond where the Interest Basis in the applicable Final Terms is specified to be Floating Rate (a "**Floating Rate Covered Bond**") bears interest on its outstanding Principal Amount Outstanding from, and including, the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrears on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the applicable Final Terms as specified Interest Payment Dates or, if no Interest Payment Date(s) is/are specified in the applicable Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown in the applicable Final Terms as the specified Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
- (ii) Business Day Convention: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then that date will be adjusted in accordance with the Business Day Convention specified in the applicable Final Terms.
- (iii) Rate of Interest for Floating Rate Covered Bonds: The Rate of Interest in respect of Floating Rate Covered Bonds, other than in the case of BBSW Covered Bonds or

BKBM Covered Bonds, provisions in respect of which are set out in Condition 4(c) and Condition 4(d) below, for each Interest Accrual Period shall be determined in the manner specified in the applicable Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the applicable Final Terms.

(A) ISDA Determination for Floating Rate Covered Bonds

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Principal Paying Agent as a rate equal to the relevant ISDA Rate. For the purposes of this subparagraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent or other person specified in the applicable Final Terms under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified in the applicable Final Terms;
- (y) the Designated Maturity is a period specified in the applicable Final Terms; and
- (z) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**", and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate/Reference Bank Determination for Floating Rate Covered Bonds

(x) If Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be subject to Condition 4(k) (*Benchmark Replacement*) (as determined by the Principal Paying Agent), either:

- (I) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (II) the arithmetic mean of the offered quotations,

for the Reference Rate in each case appearing on the Relevant Screen Page at the Relevant Time on the Interest Determination Date;

- (y) if sub-paragraph (x)(I) applies and no Reference Rate appears on the Relevant Screen Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (x)(II) applies and fewer than two offered quotations appear on the Relevant Screen Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the offered quotations that each of the Reference Banks is quoting (or such of them, being at least two, as are so quoting) to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date for deposits of the Specified Currency for a term equal to the relevant Interest Accrual Period as determined by the Principal Paying Agent; and
- (z) if paragraph (y) above applies and the Principal Paying Agent determines that fewer than two Reference Banks are so quoting the Reference Rate, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage), which the Principal Paying Agent determines to be the nearest equivalent to the

Reference Rate, in respect of deposits of the Specified Currency that at least two out of five leading banks selected by the Principal Paying Agent (after consultation with the Issuer) in the Principal Financial Centre of the country of the Specified Currency, in each case as selected by the Principal Paying Agent (after consultation with the Issuer), are quoting at or about the Relevant Time for a period commencing on the Effective Date equivalent to the relevant Interest Accrual Period to leading banks carrying on business in (i) Europe, or (ii) (if the Principal Paying Agent determines that fewer than two of such banks are so quoting to such leading banks in Europe) the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to such leading banks, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(c) ***Interest on BBSW Covered Bonds***

If a Covered Bond is specified to be a BBSW Covered Bond, the Rate of Interest for each Interest Accrual Period will be determined by the Calculation Agent on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

- (i) the Rate of Interest shall be the rate (expressed as an interest rate per annum and rounded up, if necessary, to the fourth decimal place) for prime bank eligible securities having a tenor approximately equal to the relevant Interest Accrual Period which is designated as the "AVG MID" on the Reuters Screen "BBSW" Page (or its successor or replacement page) ("**BBSW Reuters Page**") at or about the Relevant Time (or such other time at which such rate customarily appears on that page (the "**Publication Time**")) on the relevant Interest Determination Date in respect of such Interest Accrual Period;
- (ii) if, by 10.30 a.m. Sydney time (or such other time that is 15 minutes after the then prevailing Publication Time), on any Interest Determination Date, such rate does not appear on the BBSW Reuters Page, the Rate of Interest means the rate determined by the Calculation Agent on the Interest Determination Date in good faith, having regard, to the extent possible, to:
 - (A) the rates otherwise bid and offered at or around 10.30 a.m. Sydney time (or such other time that is 15 minutes after the then prevailing Publication Time) on the Interest Determination Date for prime bank eligible securities having a tenor approximately equal to the relevant Interest Accrual Period; and
 - (B) if bid and offer rates at or around 10.30 a.m. Sydney time (or such other time that is 15 minutes after the then prevailing Publication Time) on the Interest Determination Date for prime bank eligible securities having a tenor approximately equal to the relevant Interest Accrual Period are not otherwise available, the rates otherwise bid and offered at or around 10.30 a.m. Sydney time (or such other time that is 15 minutes after the then prevailing Publication Time) on the Interest Determination Date for funds having a tenor approximately equal to the relevant Interest Accrual Period; and
- (iii) if, on any Interest Determination Date, the Rate of Interest cannot be determined by reference to any of sub-paragraphs (i) and (ii) above, the Rate of Interest for the relevant Interest Accrual Period shall be the Rate of Interest in effect for the last preceding Interest Accrual Period (after readjustment for any difference between any Margin or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(d) ***Interest on BKBM Covered Bonds***

If a Covered Bond is specified to be a BKBM Covered Bond, the Rate of Interest for each Interest Accrual Period will be determined by the Calculation Agent on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

- (i) the Rate of Interest shall be the Bank Bill reference rate (rounded, if necessary, to the fifth decimal place) administered by the New Zealand Financial Markets Association (or any other person which takes over the administration of that rate) as set forth on the display page designated on page "BKBM" on the Reuters screen service ("**BKBM Reuters Page**"), or such other information service as may replace the BKBM Reuters Page, at or about the Relevant Time (or such other time at which such rate customarily appears on that page (the "**Publication Time**")) on the relevant Interest Determination Date in respect of such Interest Accrual Period;
- (ii) if, by 11.00 a.m. Wellington time (or such other time that is 15 minutes after the then prevailing Publication Time), on any Interest Determination Date, such rate does not appear on the BKBM Reuters Page, the Rate of Interest means the rate determined by the Calculation Agent on the Interest Determination Date in good faith, having regard, to the extent possible, to the rates otherwise bid and offered at or around 11.00 a.m. Wellington time (or such other time that is 15 minutes after the then prevailing Publication Time) on the Interest Determination Date by participants in the BKBM trading window for New Zealand bank bills having a tenor approximately equal to the relevant Interest Accrual Period;
- (iii) if, on any Interest Determination Date, the Rate of Interest cannot be determined by reference to any of sub-paragraphs (i) and (ii) above, the Rate of Interest for the relevant Interest Accrual Period shall be the Rate of Interest in effect for the last preceding Interest Accrual Period (after readjustment for any difference between any Margin or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(e) ***Zero Coupon Covered Bonds***

Where a Covered Bond, the Interest Basis of which is specified in the applicable Final Terms to be Zero Coupon (a Zero Coupon Covered Bond), is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Covered Bond, unless otherwise specified in the applicable Final Terms. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Covered Bond shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield.

(f) ***Accrual of Interest***

Interest shall cease to accrue on each Covered Bond on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (after, as well as before, judgement) at the Rate of Interest in the manner provided in this Condition 4 to the Relevant Date.

(g) ***Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding***

- (i) If any Margin is specified in the applicable Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 4(b), Condition 4(c) or Condition 4(d) above, by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph;

- (ii) If any Maximum or Minimum Interest Rate, Instalment Amount or Redemption Amount is specified in the applicable Final Terms, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be. Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero;
- (iii) Subject to the requirements of applicable law, for the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven decimal places (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Euro, means 0.01 Euro, as the case may be.

(h) ***Calculations***

Unless otherwise specified in the applicable Final Terms, the amount of interest payable in respect of any Covered Bond for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding Principal Amount Outstanding of such Covered Bond by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in the applicable Final Terms in respect of such period, in which case the amount of interest payable in respect of such Covered Bond for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

(i) ***Determination and Publication of Rate of Interest, Interest Amounts, Final Redemption Amounts and Instalment Amounts***

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Principal Paying Agent may be required to calculate any rate or amount or Instalment Amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of the Covered Bonds for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Bond Trustee, the Issuer, the Guarantor (if applicable), each of the Paying Agents, the Covered Bondholders in accordance with Condition 14 (*Notices*), the Registrars, any other Calculation Agent appointed in respect of the Covered Bonds that is to make a further calculation upon receipt of such information and, if the Covered Bonds are listed on a stock exchange (and/or admitted to listing, trading and/or quotation on any other listing authority, stock exchange and/or quotation system) and the rules of such listing authority, stock exchange and/or quotation system so require, such listing authority, stock exchange and/or quotation system as soon as possible after their determination but in no event later than (y) the commencement of the relevant Interest Accrual Period, if determined prior to such time in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (z) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Accrual Period is subject to adjustment pursuant to Condition 4(a)(iv) (*Interest on Fixed Rate Covered Bonds*) or Condition 4(b)(ii) (*Interest on Floating Rate Covered Bonds*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Accrual Period. If the Calculation Amount is less than the minimum

Specified Denomination, the Principal Paying Agent shall not be obligated to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Covered Bond having the minimum Specified Denomination. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Principal Paying Agent(s) or Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

(j) ***Calculation Agent and Reference Banks***

The Issuer and, if applicable, the Guarantor shall procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and one or more Calculation Agents if provision is made for them in the applicable Final Terms and for so long as any Covered Bond is outstanding (as defined in the Agency Agreement). If any Reference Bank (acting through its relevant offices) is unable or unwilling to continue to act as a Reference Bank, then the Issuer or, failing which and if applicable, the Guarantor shall appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place.

(k) ***Benchmark Replacement***

In addition, notwithstanding the provisions above in Condition 4(b) if the Issuer (in consultation with the Principal Paying 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 Reference Rate affected by the Benchmark Disruption Event, then the Issuer will appoint an Independent Advisor and the following provisions shall apply:

- (i) the Principal Paying Agent shall use as the Reference Rate for the relevant Interest Period or Interest Accrual Period a substitute or successor rate that has been determined at the request of the Issuer by the Independent Advisor (acting in good faith and in a commercially reasonable manner) in its sole discretion, after consulting such sources as it deems reasonable, to be (a) the industry-accepted successor rate to the Reference Rate or (b) if no such industry accepted successor rate exists, the most comparable substitute or successor rate to the relevant Reference Rate and which has been notified to the Principal Paying Agent by the Independent Advisor; and
- (ii) if the Independent Advisor has determined a substitute or successor rate and notified the Principal Paying Agent in accordance with the foregoing, the Independent Advisor may determine (acting in good faith and in a commercially reasonable manner) in its sole discretion, after consulting any source it deems reasonable, the Business Day Convention, the definitions of Business Day, Day Count Fraction, Relevant Screen Page, Relevant Time, Reference Rate 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 Reference Rate, in a manner that is consistent with industry-accepted practices for such substitute or successor rate and shall notify the Principal Paying Agent of such determination; and
- (iii) if the Independent Advisor is unable to determine a substitute or successor rate in accordance with Condition 4(k)(i), 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 Covered Bonds on the previous Interest Determination Date or in effect for the last preceding Interest Accrual Period (after readjustment for any difference between any Margin 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 4(k)(iii) 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 Condition 4(k) (*Benchmark Replacement*)).

For the purposes of this Condition 4(k) (*Benchmark Replacement*):

"**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**" occurs if:

- (i) the relevant Reference Rate specified in the relevant Final Terms has ceased to be published on the Relevant Screen Page as a result of such benchmark ceasing to be calculated or administered; or
- (ii) the Issuer determines after consulting with the Independent Adviser that, a change in the generally accepted market practice in the international debt capital markets to refer to a Reference Rate is endorsed in a public statement by a Relevant Nominating Body, the Bank of England, the Financial Conduct Authority 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 Rates, despite the continued existence of the applicable Reference Rate; and

"**Relevant Nominating Body**" means, in respect of a Reference Rate:

- (i) the central bank for the currency to which the Reference Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate; or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the Reference Rate relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate, (c) a group of the aforementioned central banks or other supervisory authorities, or (d) the Financial Stability Board or any part thereof.

(l) ***Determination by Independent Adviser***

If the Principal Paying Agent or Calculation Agent, as the case may be, is unable or unwilling to act as such or if the Principal Paying Agent or Calculation Agent, as the case may be, fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount or Optional Redemption Amount or to comply with any other requirement, the Issuer may appoint an Independent Adviser to determine the Rate of Interest or any other amount at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Independent Adviser may calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable. Each determination or calculation made by the Independent Adviser pursuant to this Condition shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as the case may be.

For the purposes of this Condition 4(l) (*Determination by Independent Adviser*), the term "**Independent Adviser**" shall have the meaning ascribed to it in Condition 4(k) (*Benchmark Replacement*).

(m) ***Certificates to be final***

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4 (*Interest and other Calculations*) shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor (if applicable), the Principal Paying Agent, the other Paying Agents (if any), the Registrars and all Covered Bondholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Covered Bondholders, the Receiptholders or the Couponholders shall attach to the

Principal Paying Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(n) **Definitions**

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Amortised Face Amount**" has the meaning given in Condition 5(f)(iii) (*Early Redemption Amounts*) unless otherwise specified in the applicable Final Terms.

"**BBSW**" means the Australian Bank Bill Swap Rate.

"**BBSW Covered Bond**" means a Floating Rate Covered Bond denominated in Australian dollars.

"**BBSW Reuters Page**" has the meaning given to it in Condition 4(c).

"**BKBM**" means the New Zealand Bank Bill reference rate (FRA).

"**BKBM Covered Bond**" means a Floating Rate Covered Bond denominated in New Zealand dollars.

"**BKBM Reuters Page**" has the meaning given to it in Condition 4(d).

"**Business Day**" means:

- (a) a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments generally in London, Auckland and Wellington; and
- (b) in the case of:
 - (i) a Specified Currency other than Euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments generally in the Principal Financial Centre for such Specified Currency; or
 - (ii) in the case of Euro, a TARGET2 Business Day; and
- (c) in the case of one or more Additional Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in the Additional Business Centres or, if no currency is indicated, generally in each of the Additional Business Centres,

unless otherwise specified in the relevant applicable Final Terms.

"**Business Day Convention**" in relation to an Interest Payment Date or other particular date, unless otherwise specified in the applicable Final Terms, has the following meaning as so specified in the applicable Final Terms:

- (a) "**Floating Rate Business Day Convention**" means that the relevant date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment;
- (b) "**Following Business Day Convention**" means that the relevant date shall be postponed to the next day that is a Business Day;
- (c) "**Modified Following Business Day Convention**" means that the relevant date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day;
- (d) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the immediately preceding Business Day; or

- (e) **"No adjustment"** means that the relevant date shall not be adjusted in accordance with any Business Day Convention.

"Calculation Amount" has the meaning given in the applicable Final Terms.

"Day Count Fraction" means, in relation to the calculation of an amount of interest on any Covered Bond for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Accrual Period, the **"Calculation Period"**):

- (a) if **"Actual/Actual (ICMA)"** is specified in the applicable Final Terms:
- (i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (x) the actual number of days in such Regular Period and (y) the number of Regular Periods in any year; and
 - (ii) where the Calculation Period is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (x) the actual number of days in such Regular Period and (y) the number of Regular Periods in any year; and
 - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (x) the actual number of days in such Regular Period and (y) the number of Regular Periods in any year;

where **"Regular Period"** means:

- (i) in the case of Covered Bonds where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
 - (ii) in the case of Covered Bonds where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Interest Payment Date falls; and
 - (iii) in the case of Covered Bonds where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.
- (b) if **"Actual/Actual (ISDA)"** or **"Actual/Actual"** is specified in the applicable Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (1) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (2) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (c) if **"Actual/365 (Fixed)"** is specified in the applicable Final Terms, the actual number of days in the Calculation Period divided by 365;
- (d) if **"Actual/365 (Sterling)"** is specified in the applicable Final Terms, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (e) if **"Actual/360"** is specified in the applicable Final Terms, the actual number of days in the Calculation Period divided by 360;

(f) if "**30/360 (ICMA)**" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360;

(g) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

where:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times M_2 - M_1] + (D_2 - D_1)}{360}$$

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

"**D₁**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number is 31, in which case D1 will be 30; and

"**D₂**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(h) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

where:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times M_2 - M_1] + (D_2 - D_1)}{360}$$

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

"**D₁**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D₂**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30; or

(i) if "**30E/360 (ISDA)**" is specified in the applicable Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

where:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times M_2 - M_1] + (D_2 - D_1)}{360}$$

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

"**D₁**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"**D₂**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30,

provided, however, that in each case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period.

"**Early Redemption Amount**" has the meaning given to it in Condition 5(f) (Early Redemption Amounts).

"**Effective Date**" means, with respect to any Floating Rate to be determined on an Interest Determination Date, unless otherwise specified in the applicable Final Terms, the first day of the Interest Accrual Period to which such Interest Determination Date relates.

"**EURIBOR**" means the Euro-Zone inter-bank offered rate.

"**Euro-Zone**" means the region comprised of Member States of the European Economic Area that adopt the single currency in accordance with the Treaty establishing the European Community, as amended ("**Treaty**").

"**Extraordinary Resolution**" has the meaning given in paragraph 20 of Schedule 4 to the Trust Deed.

"**Final Redemption Amount**" means, in relation to a Covered Bond, its Principal Amount Outstanding unless otherwise specified in the applicable Final Terms.

"**Interest Amount**" means the amount of interest payable, and in the case of Fixed Rate Covered Bonds, means the Fixed Coupon Amount, Broken Amount or the amount calculated pursuant to Condition 4(a)(iii) (Interest on Fixed Rate Covered Bonds), as the case may be.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date, except that the final Interest Accrual Period ends on (but excludes) the Maturity Date or the date of any earlier redemption of a Covered Bond in accordance with the Conditions, or any other period specified in the applicable Final Terms.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in the applicable Final Terms.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the applicable Final Terms or, if none is so specified:

- (a) if the Specified Currency is Sterling or if the Covered Bonds are BBSW Covered Bonds or BKBM Covered Bonds, the first day of such Interest Accrual Period;

- (b) if the Specified Currency is neither Sterling nor Euro, except for BBSW Covered Bonds or BKBM Covered Bonds, the day falling two Business Days for the Specified Currency prior to the first day of such Interest Accrual Period; or
- (c) if the Specified Currency is Euro, the day falling two TARGET2 Business Days prior to the first day of such Interest Accrual Period.

"Interest Payment Date(s)" means the date or dates specified in the applicable Final Terms and, unless otherwise specified in the applicable Final Terms, the final Interest Payment Date shall be the Maturity Date or such earlier date on which the relevant Covered Bonds are redeemed in accordance with the Conditions.

"Interest Period" means, the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date, except that the final Interest Period ends on (but excludes) the Maturity Date or the date of any earlier redemption of a Covered Bond in accordance with the Conditions.

"ISDA Definitions" means, unless otherwise specified in the applicable Final Terms, the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Covered Bonds of the relevant Series (as specified in the applicable Final Terms)) or, if so specified in the applicable Final Terms, the 2000 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Covered Bonds of the relevant Series (as specified in the applicable Final Terms)) in each case as published by the International Swaps and Derivatives Association, Inc.).

"HIBOR" means the Hong Kong inter-bank offered rate.

"Issue Date" means the date of issue of the Covered Bonds as specified in the applicable Final Terms;

"LIBOR" means the London inter-bank offered rate.

"Principal Amount Outstanding" in respect of a Covered Bond means the outstanding principal amount of that Covered Bond.

"Principal Financial Centre" means, in relation to a Specified Currency or any other currency, the principal financial centre of the country of that Specified Currency or other currency, which in the case of Euro, is the Euro-Zone and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be (i) Sydney or (ii) Auckland or Wellington, respectively.

"Rate of Interest" means the rate of interest payable from time to time in respect of a Covered Bond and that is either specified or calculated in accordance with these Conditions and the provisions set out in the applicable Final Terms.

"Record Date" has the meaning given in Condition 6(e) (*Payments in respect of Registered Covered Bonds*).

"Redemption Amount(s)" means the Final Redemption Amount or Early Redemption Amount, Optional Redemption Amount, Minimum Redemption Amount or Maximum Redemption Amount, as the case may be.

"Reference Banks" means the institutions specified as such in the applicable Final Terms or, if none, four major banks selected by the Issuer and, if applicable, the Guarantor in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the Reference Rate specified in the applicable Final Terms which, if the relevant Reference Rate is EURIBOR, shall be the Euro-Zone.

"Reference Rate" means the relevant LIBOR, EURIBOR, STIBOR, HIBOR, SIBOR, TIBOR, BBSW or BKBM rate specified in the applicable Final Terms.

"Relevant Date" has the meaning given in Condition 7 (*Taxation*).

"Relevant Financial Centre" means, with respect to any Floating Rate to be determined in accordance with Screen Rate Determination on an Interest Determination Date:

- (a) (i) in the case of BBSW Covered Bonds, Sydney (ii) in the case of BKBM Covered Bonds, either Wellington or Auckland, New Zealand or (iii) in either case such other financial centre as may be specified in the applicable Final Terms; and
- (b) in all other cases, the financial centre specified as such in the applicable Final Terms or, if none is so specified, the Principal Financial Centre with which the relevant Reference Rate is most closely connected (which, where the Specified Currency is Euro, shall be the Euro-Zone) or, if none is so connected, London.

"Relevant Screen Page" means, the screen page specified as such in the relevant Final Terms or such page as may replace or succeed it for the purposes of displaying the relevant rate.

"Relevant Time" with respect to any Interest Determination Date, unless otherwise specified in the applicable Final Terms, 10.15 a.m., Sydney time in the case of BBSW Covered Bonds, 10.45 a.m., Wellington time in the case of BKBM Covered Bonds and 11.00 a.m. Relevant Financial Centre time in respect of all other Covered Bonds (or such other time at which such rate customarily appears).

"Specified Currency" means the currency specified as such in the applicable Final Terms or, if none is specified, the currency in which the Covered Bonds are denominated.

"SIBOR" means the Singapore inter-bank offered rate.

"STIBOR" means the Stockholm inter-bank offered rate.

"TARGET2 Business Day" means a day on which the TARGET2 System is open.

"TARGET2 System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System.

"TIBOR" means the Tokyo inter-bank offered rate.

5. **Redemption and Purchase**

(a) ***Final redemption***

Unless previously redeemed in full or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount specified in the applicable Final Terms in the relevant Specified Currency on the Final Maturity Date specified in the applicable Final Terms.

Without prejudice to Condition 9 (*Events of Default and Enforcement*), if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the Issuer and the Guarantor have failed to pay the Final Redemption Amount on the Final Maturity Date specified in the Final Terms (or after expiry of the grace period set out in Condition 9(a)(i) (*Issuer Events of Default*), and, following the service of a Notice to Pay on the Covered Bond Guarantor by no later than the date falling one Business Day prior to the Extension Determination Date, the Covered Bond Guarantor has insufficient monies available under the Guarantee Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series of Covered Bonds on the date falling on the earlier of (a) the date which falls two Business Days after service of such Notice to Pay on the Covered Bond Guarantor or, if later, the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9(b)(i) (*Covered Bond Guarantor Events of Default*)) under the terms of the Covered Bond Guarantee and (b) the Extension Determination Date, then (subject as provided below) payment of the unpaid amount by the Covered Bond Guarantor under the Covered Bond Guarantee shall be deferred until the Extended Due for Payment Date, provided that the Covered Bond Guarantor may pay any amount representing the Final Redemption Amount on the relevant Final Maturity Date and any amount representing the Final Redemption Amount due and remaining unpaid on the earlier of (a) and (b) above may also be paid by the Covered Bond Guarantor on any Interest

Payment Date thereafter up to (and including) the Extended Due for Payment Date. The Issuer shall confirm to the Principal Paying Agent as soon as reasonably practicable and in any event at least four Business Days prior to the Final Maturity Date of a Series of Covered Bonds whether (x) payment will be made in full of the Final Redemption Amount in respect of a Series of Covered Bonds on that Final Maturity Date or (y) payment will not be made in full of the Final Redemption Amount in respect of a Series of Covered Bonds on that Final Maturity Date. Any failure by the Issuer to notify the Principal Paying Agent shall not affect the validity or effectiveness of the extension.

The Covered Bond Guarantor shall notify the relevant Covered Bondholders (in accordance with Condition 14 (*Notices*)), the Rating Agencies, the Bond Trustee, the Security Trustee, the Principal Paying Agent and the Registrars (in the case of Registered Covered Bonds) as soon as reasonably practicable and in any event at least one Business Day prior to the dates specified in (a) and (b) of the preceding paragraph of any inability of the Covered Bond Guarantor to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of a Series of Covered Bonds pursuant to the Covered Bond Guarantee. Any failure by the Covered Bond Guarantor to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights in any such party. In such circumstances, the Covered Bond Guarantor shall on the earlier of (a) the date falling two Business Days after the service of a Notice to Pay on the Covered Bond Guarantor or if later the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9(b)(i) (*Covered Bond Guarantor Events of Default*)) and (b) the Extension Determination Date, under the Covered Bond Guarantee, apply the monies (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priority of Payments) pro rata in part payment of an amount equal to the Final Redemption Amount of each Covered Bond of the relevant Series of Covered Bonds and shall pay Guaranteed Amounts constituting the Scheduled Interest in respect of each such Covered Bond on such date. The obligation of the Covered Bond Guarantor to pay any amounts in respect of the balance of the Final Redemption Amount not so paid shall be deferred as described above. Such failure to pay by the Covered Bond Guarantor shall not constitute a Covered Bond Guarantor Event of Default.

Any discharge of the obligations of the Issuer and the Guarantor as the result of the payment of Excess Proceeds to the Bond Trustee shall be disregarded for the purposes of determining the amounts to be paid by the Covered Bond Guarantor under the Covered Bond Guarantee in connection with this Condition 5(a).

For the purposes of these Conditions:

"Extended Due for Payment Date" means, in relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full on the Extension Determination Date.

"Extension Determination Date" means, in respect of a Series of Covered Bonds to which an Extended Due for Payment Date applies, the date falling two Business Days after the expiry of seven days starting on (and including) the Final Maturity Date of such Series of Covered Bonds.

"Guarantee Priority of Payments" means the guarantee priority of payments relating to the allocation and distribution of all Available Revenue Receipts and Available Principal Receipts following service of a Notice to Pay on the Covered Bond Guarantor, but prior to service of a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor in accordance with clause 12.5 of the Establishment Deed.

"Rating Agency" means any one of Moody's Investors Service Pty Limited and Fitch Australia Pty Ltd (together, the **"Rating Agencies"**) or their successors, to the extent they provide ratings in respect of the Covered Bonds.

(b) *Redemption for taxation reasons*

The Covered Bonds may be redeemed at the option of the Issuer in whole, or in part, at any time (if the Covered Bond is not a Floating Rate Covered Bond) or on any Interest Payment Date (if the Covered Bond is a Floating Rate Covered Bond), on giving not less than the minimum period (which shall not be less than 5 Business Days) nor more than the maximum period of notice specified in the applicable Final Terms to the Bond Trustee and, in accordance with Condition 14 (*Notices*), the Covered Bondholders (which notice shall be irrevocable), if, on the occasion of the next Interest Payment Date, (i) the Issuer is or will be required to pay additional amounts as provided or referred to in Condition 7 (*Taxation*), (ii) the rate of approved issuer levy exceeds the rate of the levy chargeable as at the date the Issuer originally issued the affected Covered Bonds, or (iii) the Guarantor would be or would become so obliged, if demand was made under the Guarantee. Covered Bonds redeemed pursuant to this Condition 5(b) will be redeemed at their Early Redemption Amount referred to in Condition 5(f) (*Early Redemption Amounts*) together (if appropriate) with interest accrued to (but excluding) the date of redemption. Prior to the publication of any notice of redemption pursuant to this Condition 5(b), the Issuer or the Guarantor (as the case may be) shall deliver to the Bond Trustee a certificate signed by one person who is either a Director, a Senior Executive, an Authorised Signatory, an authorised representative, an attorney or of equivalent status of the Issuer or the Guarantor (as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all holders of the Covered Bonds, Receiptholders and Couponholders.

(c) ***Redemption at the option of the Issuer (Issuer Call)***

If Issuer Call is specified as being applicable in the applicable Final Terms, the Issuer may, having (unless otherwise specified, in the applicable Final Terms) given not less than the minimum period (which shall not be less than 5 Business Days) nor more than the maximum period of notice specified in the applicable Final Terms to the Bond Trustee, the Principal Paying Agent, (in the case of the redemption of Registered Covered Bonds) the Registrars and, in accordance with Condition 14 (*Notices*), the Covered Bondholders (which notice shall be irrevocable) redeem all or some only (as specified in the applicable Final Terms) of the Covered Bonds then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). Upon expiry of such notice, the Issuer shall be bound to redeem the Covered Bonds accordingly. In the event of a redemption of some only of the Covered Bonds, such redemption must be for an amount being the Minimum Redemption Amount or a Higher Redemption Amount. In the case of a partial redemption of Covered Bonds, the Covered Bonds to be redeemed (the "**Redeemed Covered Bonds**") will be selected individually by lot, in the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or DTC (to be reflected in the records of Euroclear and Clearstream, Luxembourg and/or DTC as either a pool factor or a reduction in nominal amount, at their discretion) (or any alternative or additional clearing system as may be specified in the Final Terms), in the case of Redeemed Covered Bonds represented by a Global Covered Bond, in each case, not more than 60 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 14 (*Notices*) not less than 30-days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Covered Bonds represented by Definitive Covered Bonds shall bear the same proportion to the aggregate nominal amount of all Redeemed Covered Bonds as the aggregate nominal amount of Definitive Covered Bonds outstanding bears to the aggregate nominal amount of the Covered Bonds outstanding, in each case on the Selection Dates, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Covered Bonds represented by a Global Covered Bond shall be equal to the balance of the Redeemed Covered Bonds. No exchange of the relevant Global Covered Bond will be permitted during the period from (and including) the Selection Date to (and

including) the date fixed for redemption pursuant to this Condition 5(c) and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 14 (*Notices*) at least 30-days prior to the Selection Date.

(d) ***Redemption at the option of the Covered Bondholders***

If Put Option is specified as being applicable in the applicable Final Terms, upon the holder of any Covered Bond giving the Issuer not less than the minimum period (which shall not be less than 15 Business Days) nor more than the maximum period of written notice as specified in the applicable Final Terms the Issuer will, upon the expiry of such notice, redeem such Covered Bond on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of a Covered Bond the holder thereof must, if the Covered Bond is in definitive form and held outside Euroclear and Clearstream, Luxembourg or DTC, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 5(d) accompanied by the Covered Bond. If the Covered Bond is represented by a Global Covered Bond held through Euroclear or Clearstream, Luxembourg or DTC to exercise the right to require redemption of the Covered Bond the holder of the Covered Bond must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear or Clearstream, Luxembourg or DTC (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or DTC, or any common depositary or common safekeeper, as the case may be, for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear or Clearstream, Luxembourg from time to time and, if the Covered Bond is represented by a Bearer Global Covered Bond, at the same time present or procure the presentation of the relevant Bearer Global Covered Bond to the Principal Paying Agent for notation accordingly.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg or DTC, given by a holder of any Covered Bond pursuant to this Condition 5(d) shall be irrevocable except where, prior to the due date of redemption, an Issuer Event of Default or a Covered Bond Guarantor Event of Default has occurred and is continuing and the Bond Trustee has declared the Covered Bonds to be due and payable pursuant to Condition 9 (*Events of Default and Enforcement*), in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 5(d) and instead request or direct the Bond Trustee to declare such Covered Bond forthwith due and payable pursuant to Condition 9 (*Events of Default and Enforcement*).

(e) ***Redemption due to illegality***

The Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Bond Trustee, the Principal Paying Agent, the Registrars and, in accordance with Condition 14 (*Notices*), all the Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that it has, or will before the next Interest Payment Date of any Covered Bond of any Series, become unlawful for the Intercompany Loan Provider and/or the Demand Loan Provider to make, fund or allow to remain outstanding any Term Advance and/or the Demand Loan (or, in either case, any part thereof) made by the Intercompany Loan Provider or the Demand Loan Provider, as the case may be to the Covered Bond Guarantor pursuant to the Intercompany Loan Agreement or the Demand Loan Agreement, as the case may be, as a result of any change in, or amendment to, the applicable laws or regulations or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or will become effective before the next such Interest Payment Date.

Covered Bonds redeemed pursuant to this Condition 5(e) will be redeemed at their Early Redemption Amount referred to in Condition 5(f) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

Prior to the publication of any notice of redemption pursuant to this Condition 5(e), the Issuer shall deliver to the Bond Trustee a certificate signed by one person who is either a Director, a Senior Executive, an authorised representative, an attorney, an Authorised Signatory or of equivalent status of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all holders of the Covered Bonds, Receiptholders and Couponholders.

(f) **Early Redemption Amounts**

For the purpose of Conditions 5(b) (*Redemption for taxation reasons*) and 5(e) (*Redemption due to illegality*) above and Condition 9 (*Events of Default and Enforcement*), each Covered Bond will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Covered Bond with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Covered Bond (other than a Zero Coupon Covered Bond but including an Instalment Covered Bond) with a Final Redemption Amount which is or may be less or greater than the Issue Price, at the amount specified in the applicable Final Terms or, if no such amount is so specified in the applicable Final Terms, at its nominal amount; or
- (iii) in the case of a Zero Coupon Covered Bond, at an amount (the "**Amortised Face Amount**") equal to the sum of:
 - (A) the Issue Price; and
 - (B) the product of the Accrual Yield (compounded annually) being applied to the Issue Price from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (i) in the case of a Zero Coupon Covered Bond payable in a Specified Currency other than Euro, on the basis of a 360-day year consisting of 12 months of 30-days each or (ii) in the case of a Zero Coupon Covered Bond payable in Euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non-leap year divided by 365) or (iii) on such other calculation basis as may be specified in the applicable Final Terms.

(g) **Instalments**

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 5(f) above.

(h) **Purchases**

The Issuer, the Guarantor or any of their respective subsidiaries or the Covered Bond Guarantor may at any time purchase or otherwise acquire Covered Bonds (provided that, in the case of Bearer Definitive Covered Bonds, all un-matured Receipts, Coupons and Talons appertaining thereto are attached thereto or surrendered therewith) at any price and in any manner. If purchases are made by tender, tenders must be available to all the Covered Bondholders alike. Such Covered Bonds may be held, reissued, resold or, at the option of the

Issuer or the Guarantor or the relevant subsidiary, surrendered to the relevant Registrar and/or to any Paying Agent for cancellation (except that any Covered Bonds purchased or otherwise acquired by the Covered Bond Guarantor must immediately be surrendered to the relevant Registrar and/or to any Paying Agent for cancellation).

(i) ***Cancellation***

All Covered Bonds which are redeemed in full will forthwith be cancelled (together with, in the case of Bearer Definitive Covered Bonds, all un-matured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 5(h) and cancelled (together with, in the case of Bearer Definitive Covered Bonds, all un-matured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be held, reissued or resold.

(j) ***Late payment on Zero Coupon Covered Bonds***

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Condition 5(a), 5(b), 5(c), 5(d) or 5(e) above or upon its becoming due and repayable as provided in Condition 9 (*Events of Default and Enforcement*) is improperly withheld or refused or default is otherwise made in the payment thereof, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in Condition 5(f)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and
- (ii) the date on which the full amount of the monies payable in respect of such Zero Coupon Covered Bonds has been received by the Principal Paying Agent or the Bond Trustee or the relevant Registrar and notice to that effect has been given to the Covered Bondholders either in accordance with Condition 14 (*Notices*) or individually.

6. **Payments**

(a) ***Method of payment***

Subject as provided below:

- (i) payments in a Specified Currency other than Euro will be made by credit or electronic transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be (i) Sydney or (ii) Auckland or Wellington, respectively); and
 - (ii) payments in Euro will be made by credit or electronic transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro cheque.
- (b) Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 to 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto. References to Specified Currency will include any successor currency under applicable law.
- (c) ***Presentation of Bearer Definitive Covered Bonds, Receipts and Coupons***

Payments of principal and interest (if any) in respect of Bearer Definitive Covered Bonds will (subject as provided below) be made in the manner provided in Condition 6(a) (*Method of payment*) above only against presentation and surrender of Bearer Definitive Covered Bonds or Coupons, as the case may be, at any specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments (if any) of principal in respect of Bearer Definitive Covered Bonds other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 6(a) (*Method of payment*) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 6(a) (*Method of payment*) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Covered Bond in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Bearer Definitive Covered Bond to which it appertains. If any Bearer Definitive Covered Bond is redeemed or becomes repayable prior to the stated maturity thereof, principal will be payable only on surrender of such Bearer Definitive Covered Bond together with all un-matured Receipts appertaining thereto. Receipts presented without the Bearer Definitive Covered Bond to which they appertain and un-matured Receipts do not constitute valid obligations of the Issuer, the Guarantor or the Covered Bond Guarantor. Upon the date on which any Bearer Definitive Covered Bond becomes due and repayable, un-matured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Covered Bonds in definitive bearer form (other than Long Maturity Covered Bonds) should be presented for payment together with all un-matured Coupons appertaining thereto (which expression shall include Coupons falling to be issued on exchange of matured Talons), failing which an amount equal to the face value of any missing un-matured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing un-matured Coupon as the sum so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon amounts in respect of any Fixed Rate Covered Bond in definitive bearer form becoming due and repayable by the Issuer (in the absence of a Notice to Pay) or the Covered Bond Guarantor under the Covered Bond Guarantee prior to its Final Maturity Date (or, as the case may be, Extended Due for Payment Date), all un-matured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the due date for redemption of any Floating Rate Covered Bond or Long Maturity Covered Bond in definitive bearer form, all un-matured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A Long Maturity Covered Bond is a Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a "Long Maturity Covered Bond" on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond. If the date for redemption of any Bearer Definitive Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Covered Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Bearer Definitive Covered Bond.

(d) ***Payments in respect of Bearer Global Covered Bonds***

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Bearer Global Covered Bond will (subject as provided below) be made in the manner specified above in relation to Bearer Definitive Covered Bonds and otherwise in the manner specified in the relevant Global Covered Bond (against presentation or surrender, as the case may be, of such Bearer Global Covered Bond if the Bearer Global Covered Bond is not intended to be issued in NGCB form at the specified office of any Paying Agent outside the United States). On the occasion of each payment, (i) in the case of any Bearer Global Covered Bond which is not issued in NGCB form, a record of such payment made on such Bearer Global Covered Bond, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Covered Bond by the Paying Agent and such record shall be prima facie evidence that the payment in question has been made and (ii) in the case of any Bearer Global Covered Bond which is issued in NGCB form, the Paying Agent shall instruct Euroclear and Clearstream, Luxembourg and the common safekeeper to make appropriate entries in their records to reflect such payment.

(e) *Payments in respect of Registered Covered Bonds*

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Covered Bond at the specified office of the relevant Registrar or any of the Paying Agents. Such payments will be made by electronic transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the relevant Registrar (the "**Register**") (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are or DTC is (as applicable) open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third Business Day (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Covered Bonds held by a holder is less than US\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "**Designated Account**" means the account maintained by a holder with a Designated Bank and identified as such in the Register and "**Designated Bank**" means (in the case of payment in a Specified Currency other than Euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland and Wellington, respectively) and (in the case of a payment in Euro) any bank which processes payments in Euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the Business Day in the city where the specified office of the relevant Registrar is located on the relevant due date to the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Register:

- (i) where the Registered Covered Bond is in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are or DTC is (as applicable) open for business) before the relevant due date; and
- (ii) where in definitive form, at the close of business on the 15th day (whether or not such 15th day is a Business Day) before the relevant due date,

(in either case, the "**Record Date**") at the holder's address shown in the Register on the Record Date and at the holder's risk. Upon application of the holder to the specified office of the relevant Registrar not less than three Business Days in the city where the specified office of the relevant Registrar is located before the due date for any payment of interest in respect of a Registered Covered Bond, the payment may be made by electronic transfer on the due date in the manner provided in the preceding paragraph. Any such application for electronic transfer

shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Covered Bonds which become payable to the holder who has made the initial application until such time as the relevant Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Covered Bond on redemption and the final instalment of principal will be made in the same manner as payment of the principal in respect of such Registered Covered Bond.

Holders of Registered Covered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Covered Bond as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrars in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

All amounts payable to DTC or its nominee as a registered holder of a Registered Global Covered Bond in respect of Covered Bonds denominated in a Specified Currency other than U.S. dollars shall be paid by electronic transfer by the Issuer to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Principal Agency Agreement.

None of the Issuer, the Guarantor, the Covered Bond Guarantor, the Bond Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(f) ***General provisions applicable to payments***

The holder of a Global Covered Bond (or, as provided in the Bond Trust Deed, the Bond Trustee) shall be the only person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and the Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or, as the case may be, the Covered Bond Guarantor will be discharged by payment to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg or DTC as the beneficial holder of a particular nominal amount of Covered Bonds represented by such Global Covered Bond must look solely to Euroclear or Clearstream, Luxembourg for his share of each payment so made by the Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or the Covered Bond Guarantor to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be). No person other than the holder of the relevant Global Covered Bond (or, as provided in the Bond Trust Deed, the Bond Trustee) shall have any claim against the Issuer, the Guarantor or the Covered Bond Guarantor in respect of any payments due on that Global Covered Bond.

Notwithstanding the foregoing provisions of this Condition, payments of principal and/or interest in U.S. dollars in respect of the Bearer Covered Bonds will only be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer and the Guarantor has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of interest on the Bearer Covered Bonds in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, the Guarantor and the Covered Bond Guarantor, adverse Tax consequences to the Issuer, the Guarantor or the Covered Bond Guarantor.

(g) ***Payment Business Day***

If the date for payment of any amount in respect of any Covered Bond, Receipt or Coupon is not a Payment Business Day (as defined below), the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Business Day and shall not be entitled to any interest or other sum in respect of any such delay. In this Condition (unless otherwise specified in the applicable Final Terms), "**Payment Business Day**" means any day (other than a Saturday or a Sunday) on which (subject to Condition 8 (*Prescription*)):

- (i) commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) in the case of Covered Bonds in definitive form, the relevant place of presentation; and
 - (B) any Additional Financial Centre specified in the applicable Final Terms;
- (ii) either (1) in relation to any sum payable in a Specified Currency other than Euro, commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the Principal Financial Centre of the country of the relevant Specified Currency (if other than the places specified in Condition 6(g)(i) and which if the Specified Currency is Australian dollars shall be Sydney) or (2) in relation to any sum payable in Euro, the TARGET 2 System is open; and
- (iii) in the case of any payment in respect of a Registered Global Covered Bond denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Covered Bond) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

(h) ***Interpretation of principal and interest***

Any reference in these Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 7 (Taxation) or under any undertakings or covenants given in addition thereto, or in substitution therefor, pursuant to the Bond Trust Deed;
- (ii) the Final Redemption Amount of the Covered Bonds;
- (iii) the Early Redemption Amount of the Covered Bonds;
- (iv) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (v) in relation to Covered Bonds redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 5(f) (*Early Redemption Amounts*));
- (vii) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds; and
- (viii) any Excess Proceeds which may be payable by the Bond Trustee under or in respect of the Covered Bonds.

Any reference in these Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 (*Taxation*) or under any undertakings given in addition thereto, or in substitution therefor, pursuant to the Bond Trust Deed.

7. Taxation

All payments of principal and interest (if any) in respect of the Covered Bonds, Receipts and Coupons by or on behalf of the Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or the Covered Bond Guarantor, as the case may be, will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of New Zealand and/or, where the Issuer is acting through its branch, the jurisdiction, country or territory in which the branch through which the Issuer is acting as specified in the relevant Final Terms is located or in each case, any political sub-division thereof or by any authority therein or thereof having power to tax unless such withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In the event of a withholding or deduction being made by the Issuer or the Guarantor (as the case may be) in respect of a payment made by it, the Issuer or the Guarantor (as the case may be) will pay such additional amounts as shall be necessary in order that the net amounts received by the Covered Bondholders, Receiptholders or Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Covered Bonds, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that the foregoing obligation to pay additional amounts shall apply only (1) in the case of Covered Bonds issued by ANZNIL; and (2) in the case of Covered Bonds issued by ANZ New Zealand only in respect of non-resident withholding tax required to be deducted by the Tax Act; and shall not apply to any such tax, assessment, governmental charge or duty:

- (a) which is payable otherwise than by deduction or withholding from payments of principal of and interest on such Covered Bond, Receipt or Coupon;
- (b) which is payable (other than in respect of New Zealand resident withholding tax) by reason of the Covered Bondholder, Receiptholder or Couponholder or beneficial owner (or any one of them in case of principal or interest derived by two or more persons jointly) having, or having had, some personal or business connection with a Tax Jurisdiction (other than mere ownership of or receipt of payment under the Covered Bonds, Receipts or Coupon or the fact that payments are, or for the purposes of taxation are deemed to be, from sources in, or secured in a Tax Jurisdiction);
- (c) which is payable solely by reason of the Covered Bondholder's, Receiptholder's or Couponholder's or beneficial owner's failure to comply with any certification, identification or other reporting requirement concerning nationality, residence, identity or connection with the taxing jurisdiction of the Covered Bondholder, Receiptholder or Couponholder or other beneficial owner of such Covered Bond;
- (d) which is payable by reason of a change in law that becomes effective more than thirty days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Business Day (as defined in Condition 6(f) (*General provisions applicable to payments*));
- (e) which is an estate, inheritance, gift, sales, transfer, personal property or similar tax, assessment or other charge;
- (f) which is payable by reason of the Covered Bondholder, Receiptholder or Couponholder or beneficial owner of such Covered Bond, Receipt or Coupon being associated with the Issuer or the Guarantor or the Covered Bond Guarantor for the purposes of the approved issuer levy and non-resident withholding tax rules in the Tax Act or any modification or equivalent thereof;

- (g) which is payable solely by reason of the relevant Covered Bond, Receipt or Coupon being presented for payment in New Zealand;
- (h) which is imposed or withheld as a consequence of the Inland Revenue Department applying section BG 1 of the Tax Act (or any modification or equivalent thereof) with the consequence that withholding tax is payable in respect of a payment in circumstances where the payment would not have been subject to withholding tax in the absence of the application of such provision;
- (i) where such withholding or deduction is for or on account of withholding tax under the New Zealand resident withholding tax regime;
- (j) which is payable on the Covered Bonds, Receipts and Coupons presented for payment by or on behalf of a Covered Bondholder, Receiptholder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Covered Bond, Receipt or Coupon to another Paying Agent in a member state of the European Union;
- (k) with respect to any payment of principal or interest (including original issue discount) on the Covered Bonds, Receipts and Coupons by the Issuer (or the Guarantor, as the case may be) to any Covered Bondholder, Receiptholder or Couponholder who is a fiduciary or partnership or other than the sole beneficial owner of any such payment to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or any other beneficial owner would not have been entitled to the additional amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Covered Bonds, Receipts and Coupons; or
- (l) any combination of (a) through (k) above,

nor shall additional amounts be paid with respect to a payment of principal or interest to a holder that is not the beneficial owner of such Covered Bond, Receipt or Coupon to the extent that the beneficial owner thereof would not have been entitled to such additional amount had such beneficial owner been the holder of such Covered Bond, Receipt or Coupon.

If any payments made by the Covered Bond Guarantor under the Covered Bond Guarantee are or become subject to any withholding or deduction, on account of any taxes, duties or other charges of whatever nature, imposed or levied by or on behalf of New Zealand or by any other authority having power to tax, the Covered Bond Guarantor:

- (i) will not be obliged to pay any additional amount as a consequence; and
- (ii) for the avoidance of doubt, will not be required to pay any amount of approved issuer levy in respect of such payments unless required by law.

If the Covered Bond Guarantor is required by law to pay any amount of approved issuer levy in respect of any payments made by it under the Covered Bond Guarantee, it may deduct from such payments an amount equal to the amount of approved issuer levy payable and will not be obliged to pay any additional amount as a consequence.

In addition, the Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or the Covered Bond Guarantor, as the case may be, will have the right to withhold and deduct a portion of any payment by reason of the failure of any person to whom such payment is being made to perfect an exemption from any withholding imposed pursuant to Sections 1471 through 1474 of the Code and any regulations thereunder, agreements entered into pursuant thereto, or official interpretations thereof, and in that case, no additional amounts will be paid.

As used herein:

- (iii) "**Tax Jurisdiction**" means each of the United Kingdom and New Zealand;
- (iv) the "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Bond

Trustee or the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Covered Bondholders in accordance with Condition 14 (*Notices*).

Where used in the remaining provisions of this Condition 7, interest means interest (as defined under the Tax Act or any modification or equivalent thereof) for withholding tax purposes, which includes the excess of the redemption amount over the issue price of any Covered Bond, as well as interest paid on such Covered Bond. The Issuer is, and the Guarantor and the Covered Bond Guarantor (where applicable) may be required by law to deduct New Zealand resident withholding tax from the payment of interest to a Covered Bondholder, Receiptholder or Couponholder, if:

- (a) the Covered Bondholder, Receiptholder or Couponholder, as the case may be, is a resident of New Zealand for income tax purposes or is otherwise subject to the New Zealand resident withholding tax rules (a "**New Zealand Covered Bondholder**"); and
- (b) at the time of such payment, the New Zealand Covered Bondholder does not hold a valid certificate of exemption for New Zealand resident withholding tax purposes.

Prior to any date on which interest is payable or the Final Maturity Date, any New Zealand Covered Bondholder:

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

The New Zealand Covered Bondholder must notify the Issuer or, as the case may be, the Guarantor or the Covered Bond Guarantor, prior to any date on which interest is payable, of any change in the New Zealand Covered Bondholder's circumstances from those previously notified that could affect the payment or withholding obligations of the Issuer or, as the case may be, the Guarantor or the Covered Bond Guarantor, in respect of this Covered Bond, Receipt or Coupon. By accepting payment of the full face amount of a Covered Bond, Receipt or Coupon, as the case may be or any interest thereon, the New Zealand Covered Bondholder indemnifies the Issuer or, as the case may be, the Guarantor or the Covered Bond Guarantor, for all purposes in respect of any liability the Issuer or, as the case may be, the Guarantor or the Covered Bond Guarantor may incur for not deducting any amount from such payment on account of New Zealand resident withholding tax.

Only a New Zealand Covered Bondholder will be obliged to make the notification referred to above and no other holder will be required to make any certification that is not a New Zealand Covered Bondholder.

8. **Prescription**

The Covered Bonds (whether in bearer or registered form), Receipts and Coupons will become void unless claims in respect of principal and/or interest are made within 10 years (in the case of principal) and five years (in the case of interest) in each case from the Relevant Date (as defined in Condition 7 (*Taxation*)) therefor, subject in each case to the provisions of Condition 6 (*Payments*).

There shall not be included in any Coupon sheet issued on exchange of a Talon, any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6 (*Payments*) or any Talon which would be void pursuant to Condition 6 (*Payments*).

9. **Events of Default and Enforcement**

(a) ***Issuer Events of Default***

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose or the purpose of any Extraordinary Resolution referred to in this Condition 9(a) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Bond Trust Deed) then outstanding, as if they were a single Series (with the Principal Amount Outstanding of Covered Bonds not denominated in NZ dollars converted into NZ dollars at the relevant Swap Rate) or if so directed by an Extraordinary Resolution of the Covered Bondholders shall, (but in the case of the happening of any of the events mentioned in subparagraph (ii) or (vi) below, only if the Bond Trustee shall have certified in writing to the Issuer and the Guarantor that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series) (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice (an "**Issuer Acceleration Notice**") in writing to the Issuer and the Guarantor (in the case of Covered Bonds issued by ANZNIL) that as against the Issuer and the Guarantor (but not, for the avoidance of doubt, as against the Covered Bond Guarantor under the Covered Bond Guarantee) each Covered Bond of each Series is, and each such Covered Bond shall, unless such event shall have been cured by the Issuer or the Guarantor (in the case of Covered Bonds issued by ANZNIL) prior to the Issuer's or the Guarantor's (as the case may be) receipt of the notice in writing from the Bond Trustee, thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Bond Trust Deed if any of the following events (each an "**Issuer Event of Default**") shall occur:

- (i) default is made in the payment of any principal or interest when due, in respect of any Covered Bonds and such default continues for a period of seven days; or
- (ii) the Issuer fails to perform or observe any of its obligations under any Covered Bonds or, if applicable, the Guarantor fails to perform or observe any of its obligations under the Guarantee, in either case other than those specified in paragraph (i) above and in such case (except where such failure is incapable of remedy) such failure continues for the period of 30-days next following the service by the Bond Trustee on the Issuer and the Guarantor (if applicable) of written notice requiring the same to be remedied; or
- (iii) otherwise than for the purpose of an amalgamation or reconstruction or merger within the meaning of these words under the laws of New Zealand or, where the Issuer is acting through its branch, of the jurisdiction, country or territory in which the branch through which the Issuer is acting as specified in the relevant Final Terms is located, a resolution is passed that the Issuer or, as the case may be, the Guarantor be wound up or dissolved; or
- (iv) the Issuer or the Guarantor stops payment (within the meaning of New Zealand or any other applicable bankruptcy law) of its obligations; or
- (v) an encumbrancer takes possession of or a receiver is appointed of the whole or a substantial part of the undertaking and assets of the Issuer or the Guarantor and any such event is continuing for 45 days after its occurrence and would materially prejudice the performance by the Issuer or, as the case may be, the Guarantor of its obligations under the Covered Bonds or a distress or execution is levied or enforced upon or sued out against the whole or a substantial part of the undertaking and assets of the Issuer or, as the case may be, the Guarantor which would materially prejudice the performance of (A) the Issuer of its obligations under the Covered Bonds or, (B) if applicable, the Guarantor of its obligations under the Guarantee, and in each case is not discharged within 60 days thereof; or
- (vi) proceedings shall have been initiated against the Issuer or the Guarantor under any applicable bankruptcy, reorganisation or other similar law and such proceedings shall not have been discharged or stayed within a period of 60 days; or

- (vii) the Issuer or the Guarantor shall initiate or consent to proceedings relating to itself under any applicable bankruptcy, insolvency, composition or other similar law (otherwise than for the purpose of amalgamation, reconstruction or merger (within the meaning of those words under the laws of New Zealand or, where the Issuer is acting through its branch, of the jurisdiction, country or territory in which the branch through which the Issuer is acting as specified in the relevant Final Terms is located)); or
- (viii) the Guarantee is (A) not in full force and effect and, where capable of remedy, the Guarantee is not in full force and effect within seven days of the date the defect is first discovered or (B) claimed by the Guarantor not to be in full force and effect; or
- (ix) if an Asset Coverage Test Breach Notice is served and not revoked (or deemed to be revoked) in accordance with the terms of the Establishment Deed on or before the next Determination Date to occur following the service of such Asset Coverage Test Breach Notice; or
- (x) if the Pre-Maturity Test in respect of any Series of Hard Bullet Covered Bonds is breached during the Pre-Maturity Test Period and the amount standing to the credit of the Pre-Maturity Ledger of the GIC Account is less than the NZ dollar Equivalent of the Required Redemption Amount for each Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test has been breached on the earlier to occur of:
 - (A) the later of:
 - (1) the date that is 10 Local Business Days from the date that the Seller is notified of that breach; and
 - (2) the date that is six months prior to the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds; and
 - (B) the Final Maturity Date of that Series of Hard Bullet Covered Bonds.

Upon the Covered Bonds becoming immediately due and repayable against the Issuer and the Guarantor pursuant to this Condition 9(a), the Bond Trustee shall forthwith serve a notice to pay (the "**Notice to Pay**") on the Covered Bond Guarantor pursuant to the Covered Bond Guarantee and the Covered Bond Guarantor shall be required to make payments of Guaranteed Amounts when the same shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may or shall take such proceedings or other action or step against the Issuer and the Guarantor in accordance with Condition 9(c) (*Enforcement*).

The Bond Trust Deed provides that all monies received by the Bond Trustee following the occurrence of an Issuer Event of Default and the delivery of an Issuer Acceleration Notice and Notice to Pay, from the Issuer, the Guarantor or any receiver, liquidator, administrator or other similar official appointed in relation to the Issuer or the Guarantor following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice and a Notice to Pay (the "**Excess Proceeds**"), shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the Covered Bond Guarantor for its own account, as soon as practicable, and shall be held by the Covered Bond Guarantor in the GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the Covered Bond Guarantor in the same manner as all other monies from time to time standing to the credit of the GIC Account pursuant to the Security Deed and the Establishment Deed. Any Excess Proceeds received by the Bond Trustee shall discharge pro tanto the obligations of the Issuer and the Guarantor (in respect of the Covered Bonds issued by ANZNIL) in respect of the payment of the amount of such Excess Proceeds under the Guarantee, Covered Bonds, Receipts and Coupons (as applicable and to the extent of the amount so received and subject to restitution of the same if such Excess Proceeds shall be required to be repaid by the Covered Bond Guarantor) (but shall be deemed not to have done so for the purposes of subrogation rights of the Covered Bond Guarantor contemplated by the Bond Trust Deed).

However, the obligations of the Covered Bond Guarantor under the Covered Bond Guarantee are (following service of an Issuer Acceleration Notice and a Notice to Pay or if earlier, Service of a Covered Bond Guarantee Acceleration Notice) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds and payment to the Covered Bond Guarantor of such Excess Proceeds shall not reduce or discharge any of such obligations.

By subscribing for Covered Bond(s), each Covered Bondholder shall be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the Covered Bond Guarantor in the manner as described above.

(b) ***Covered Bond Guarantor Events of Default***

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 9(b) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Bond Trust Deed) then outstanding as if they were a single Series (with the Principal Amount Outstanding of Covered Bonds not denominated in NZ dollars converted into NZ dollars at the relevant Swap Rate) or if so directed by an Extraordinary Resolution of all the Covered Bondholders shall, (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction), but in the case of the happening of any of the events described in paragraph (ii) or (v) below, only if the Bond Trustee shall have certified in writing to the Issuer, the Guarantor and the Covered Bond Guarantor that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series, give notice (the "**Covered Bond Guarantee Acceleration Notice**") in writing to the Issuer, the Guarantor and to the Covered Bond Guarantor, that (x) each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer and the Guarantor (if not already due and repayable against it following an Issuer Event of Default), thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest and (y) all amounts payable by the Covered Bond Guarantor under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with accrued interest, in each case as provided in the Bond Trust Deed and thereafter the Security shall become enforceable if any of the following events (each a "**Covered Bond Guarantor Event of Default**") shall occur and be continuing:

- (i) default is made by the Covered Bond Guarantor for a period of 14 days or more in the payment of any Guaranteed Amounts when Due for Payment in respect of the Covered Bonds of any Series except in the case of the payments of a Guaranteed Amount when Due for Payment on the Extended Due for Payment Date under Condition 5(a) (*Final Redemption*) where the Covered Bond Guarantor shall be required to make payments of Guaranteed Amounts which relate to the Final Redemption Amount and which are Due for Payment on the Extended Due for Payment Date; or
- (ii) if default is made by the Covered Bond Guarantor in the performance or observance of any other obligation, condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Bond Trust Deed, the Security Deed or any other Programme Document to which the Covered Bond Guarantor is a party (other than the Programme Agreement or any Subscription Agreement) and, except where such default is or the effects of such default are, in the opinion of the Bond Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30-days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the Covered Bond Guarantor requiring the same to be remedied; or
- (iii) if the Covered Bond Guarantor ceases or threatens to cease to carry on its business or substantially the whole of its business; or

- (iv) the Covered Bond Guarantor shall stop payment or shall be unable, or shall admit inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or
- (v) proceedings are initiated against the Covered Bond Guarantor under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition or the filing of documents with a court or any registrar for its winding up, administration or dissolution or the giving notice of the intention to appoint an administrator (whether out of court or otherwise)); or a receiver and/or manager, administrative receiver, administrator, trustee or other similar official shall be appointed (whether out of court or otherwise) in relation to the Covered Bond Guarantor or in relation to the whole or any part of its assets, or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any part of its assets, or if the Covered Bond Guarantor shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance, assignment or assignation for the benefit of, or shall enter into any composition with, its creditors generally; or
- (vi) a failure to satisfy the Amortisation Test (as set out in the Establishment Deed) on any Determination Date following service of a Notice to Pay on the Covered Bond Guarantor; or
- (vii) the Covered Bond Guarantee is not, or is claimed by the Covered Bond Guarantor not to be, in full force and effect.

Following the occurrence of a Covered Bond Guarantor Event of Default and service of a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor each of the Bond Trustee and the Security Trustee may or shall take such proceedings or steps in accordance with the first and third paragraphs, respectively, of Condition 9(c) (*Enforcement*) and the Covered Bondholders shall have a claim against the Covered Bond Guarantor, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount for each Covered Bond of each Series together with accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable under Condition 7 (*Taxation*)) as provided in the Bond Trust Deed in respect of each Covered Bond.

(c) ***Enforcement***

The Bond Trustee may at any time, at its discretion and without further notice, following service of an Issuer Acceleration Notice (in the case of the Issuer and the Guarantor) or, if earlier, following service of a Covered Bond Guarantee Acceleration Notice (in the case of the Covered Bond Guarantor) take such proceedings or other action or step as it may think fit against or in relation to the Issuer and/or the Guarantor (in the case of Covered Bonds issued by ANZNIL) and/or the Covered Bond Guarantor, as the case may be, and/or any other person as it may think fit to enforce the provisions of the Bond Trust Deed, the Covered Bonds, the Receipts and the Coupons or any other Programme Document, but it shall not be bound to take any such enforcement proceedings or other action or step in relation to the Bond Trust Deed, the Covered Bonds, the Receipts or the Coupons or any other Programme Document unless (i) it shall have been so directed by an Extraordinary Resolution of the Covered Bondholders of all Series then outstanding (with the Covered Bonds of all Series taken together as a single Series and converted into NZ dollars at the relevant Swap Rate as aforesaid) or so requested in writing by the holders of not less than 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (with the Covered Bonds of all Series taken together as a single Series and converted into NZ dollars at the relevant Swap Rate as aforesaid) and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

In exercising any of its powers, trusts, authorities and discretions the Bond Trustee shall only have regard to the interests of the Covered Bondholders of all Series equally and shall not have regard to the interests of any other Secured Creditors.

The Bond Trustee may at any time, following service of a Covered Bond Guarantee Acceleration Notice at its discretion and without further notice, direct the Security Trustee to take such steps or proceedings against the Covered Bond Guarantor and/or any other person as it may think fit to enforce the provisions of the Security Deed or any other Programme Document and may, at any time after the Security has become enforceable, direct the Security Trustee to take such steps as it may think fit to enforce the Security, but it shall not be bound to give any such direction and the Security Trustee shall not be bound to take any such steps or proceedings unless (i) the Bond Trustee shall have been so directed by an Extraordinary Resolution of the Covered Bondholders of all Series then outstanding (with the Covered Bonds of all Series taken together as a single Series and converted into NZ dollars at the relevant Swap Rate as aforesaid) or so requested in writing by the holders of not less than 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (with the Covered Bonds of all Series taken together as a single Series and converted into NZ dollars at the relevant Swap Rate as aforesaid); and (ii) each of the Bond Trustee and Security Trustee shall have been indemnified and/or secured and/or prefunded to its satisfaction. In exercising any of its powers, trusts, authorities and discretions under this paragraph each of the Bond Trustee and the Security Trustee shall only have regard to the interests of the Covered Bondholders of all Series equally and shall not have regard to the interests of any other Secured Creditors.

No Covered Bondholder, Receiptholder or Couponholder shall be entitled to institute proceedings directly against the Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or the Covered Bond Guarantor or to take any step or action with respect to the Bond Trust Deed, the Covered Bonds, the Receipts, the Coupons, or the Security unless the Bond Trustee or the Security Trustee, as applicable, having become bound so to proceed, fails so to do within a reasonable time and such failure is continuing in which event any Covered Bondholder, Receiptholder or Couponholder may, himself institute such proceedings and/or prove in the winding up, administration or liquidation of the Issuer and/or the Guarantor or the Covered Bond Guarantor to the same extent and in the same jurisdiction (but not further or otherwise than the Bond Trustee would have been entitled to do so in respect of the Covered Bonds, Receipts and Coupons and/or the Bond Trust Deed).

10. Principal Paying Agent, Paying Agents and Registrars

The names of the initial Principal Paying Agent, the other initial Paying Agents, the initial Registrars and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Principal Paying Agent, or failing duly to determine the Rate of Interest, if applicable, or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint the London office of such other bank as may be approved by the Bond Trustee to act as such in its place. The Principal Paying Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid.

The Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) and the Covered Bond Guarantor are entitled, with the prior written approval of the Bond Trustee (such approval not to be unreasonably withheld or delayed), to vary or terminate the appointment of any Paying Agent or Registrar and/or appoint additional or other Paying Agents or Registrars and/or approve any change in the specified office through which any Paying Agent or Registrar acts, provided that:

- (a) there will at all times be a Principal Paying Agent, a Luxembourg Registrar and, in the case of issuances through DTC, a U.S. Paying Agent and a U.S. Registrar;
- (b) so long as any of the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Covered Bonds) and a Transfer Agent (in the case of Registered Covered Bonds) with a specified office in such place as may be required by the rules

and regulations of the relevant stock exchange or as the case may be, other relevant authority;

- (c) so long as any of the Registered Global Bonds payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent; and
- (d) the Issuer will ensure that it appoints a Paying Agent in a Member State of the European Union (other than the United Kingdom) in the event that it is required to withhold or deduct tax on payments made in the United Kingdom.

In addition, the Issuer shall, when necessary appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6(f) (*General provisions applicable to payments*). Notice of any such variation, termination, appointment or change will be given by the Issuer to the Covered Bondholders as soon as reasonably practicable in accordance with Condition 14 (*Notices*).

In acting under the Principal Agency Agreement, the Agents act solely as agents of the Issuer, the Guarantor and the Covered Bond Guarantor and do not assume any obligation to, or relationship of agency or trust with, any Covered Bondholders, Receiptholders or Couponholders. The Principal Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent. Pursuant to the Principal Agency Agreement, the Issuers, the Guarantor or the Covered Bond Guarantor may remove at any time, with prior written approval of the Bond Trustee and on giving 30-days' notice in writing, any Agent that is an FFI and either ceases to be, or fails to become, a participating FFI as that term is defined in FATCA.

11. **Meetings of Covered Bondholders, Modification, Waiver, Substitution and Legislative Exchange**

Covered Bondholders, Receiptholders, Couponholders and other Secured Creditors should note that the Issuers, the Guarantor, the Covered Bond Guarantor and the Principal Paying Agent may without their consent or the consent of the Bond Trustee or the Security Trustee agree to modify any provision of any Final Terms which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provisions of law.

(a) *Meetings*

The Bond Trust Deed contains provisions for convening meetings of the Covered Bondholders of any Series to consider any matter affecting their interests, including the modification of these Conditions or the provisions of the Bond Trust Deed. The quorum at any such meeting in respect of the Covered Bonds of any Series for passing an Extraordinary Resolution (other than in respect of a Series Reserved Matter) is two or more persons holding or representing not less than a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned meeting two or more persons being or representing the Covered Bondholders of such Series whatever the Principal Amount Outstanding of the Covered Bonds of such Series so held or represented, except that at any meeting the business of which includes any Series Reserved Matter, the quorum for any adjourned meeting shall be two or more persons holding or representing not less than one-third of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding. The expression Extraordinary Resolution when used in these Conditions means: (i) a resolution passed at a meeting of the Covered Bondholders duly convened and held in accordance with the Bond Trust Deed by a majority consisting of not less than three-fourths of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than three fourths of the votes cast on such poll; or (ii) a resolution in writing signed by or on behalf of Covered Bondholders holding not less than seventy five per cent. in Principal Amount Outstanding of the Covered Bonds then outstanding, which resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of two or more of the Covered

Bondholders; or (iii) a resolution by way of electronic consents given by holders through the relevant clearing system(s) (in a form satisfactory to the Bond Trustee) by or on behalf of the Covered Bondholders of not less than three fourths in Principal Amount Outstanding for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Covered Bondholders of a Series shall, subject as provided below, be binding on all the Covered Bondholders of such Series, whether or not they are present at the meeting, and on all Receiptholders and Couponholders in respect of such Series of Covered Bonds. Pursuant to the Bond Trust Deed, the Bond Trustee may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Bond Trustee there is no conflict between the respective interests of such Covered Bondholders, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9(a) (*Issuer Events of Default*) or to give a Covered Bond Guarantee Acceleration Notice pursuant to Condition 9(b) (*Covered Bond Guarantor Events of Default*) or to direct the Bond Trustee or the Security Trustee or to direct the Bond Trustee to direct the Security Trustee to take any enforcement action or to direct the Bond Trustee to determine that any Issuer Event of Default, Potential Issuer Event of Default, Covered Bond Guarantor Event of Default or Potential Covered Bond Guarantor Event of Default shall not be treated as such for the purposes of the Bond Trust Deed (each a "**Programme Resolution**") shall only be capable of being passed at a single meeting of the Covered Bondholders of all Series then outstanding. Any such meeting to consider a Programme Resolution may be convened by the Issuer, the Guarantor, the Covered Bond Guarantor or the Bond Trustee or by the Covered Bondholders of any Series. The quorum at any such meeting for passing a Programme Resolution is two or more persons holding or representing at least a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series for the time being outstanding or at any adjourned such meeting two or more persons holding or representing Covered Bonds whatever the Principal Amount Outstanding of the Covered Bonds of any Series so held or represented. A Programme Resolution passed at any meeting of the Covered Bondholders of all Series shall be binding on all the Covered Bondholders of all Series, whether or not they are present at the meeting, and on all related Receiptholders and Couponholders.

In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in NZ dollars, the Principal Amount Outstanding of the Covered Bonds of any Series not denominated in NZ dollars shall be converted into NZ dollars at the relevant Swap Rate.

The Bond Trustee may, without the consent or sanction of any of the Covered Bondholders of any Series, the related Receiptholders and/or the Couponholders and without the consent of the other Secured Creditors, at any time and from time to time, concur with the Issuer, the Guarantor, the Covered Bond Guarantor or any other party or direct the Security Trustee to concur with the Issuer, the Guarantor, the Covered Bond Guarantor or any other party in making any modification of the Covered Bonds of one or more Series, the related Receipts and/or Coupons or any Programme Document:

- (i) which in the opinion of the Bond Trustee may be expedient to make provided the Bond Trustee is of the opinion that such modification is not materially prejudicial to the interests of the Covered Bondholders of any Series but such power does not extend to any such modification referred to in the definition of Series Reserved Matter; or
- (ii) which is in the opinion of the Bond Trustee of a formal, minor or technical nature, or in the opinion of the Bond Trustee is made to correct a manifest error or is made to comply with mandatory provisions of law (and for this purpose the Bond Trustee may disregard whether any such modification relates to a Series Reserved Matter); or
- (iii) (without prejudice to (i) and (ii) above) which is made to enable Covered Bondholders and Secured Creditors or any of them to obtain the protection and/or other benefits of any legislation or regulation or any directive of any regulatory body including, without limitation, the RBNZ that is introduced in New Zealand for the purpose of supporting the issuance of covered bonds provided that the Bond Trustee is of the opinion that

such modification will not be materially prejudicial to the interests of the Covered Bondholders of any Series.

Notwithstanding the above the Bond Trustee and the Security Trustee shall not be obliged to agree to any amendment, which, in the sole opinion of the Bond Trustee or the Security Trustee, (as applicable), would have the effect of (x) exposing the Bond Trustee or the Security Trustee, (as applicable), to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (y) increasing the obligations or duties, or decreasing the protections, of the Bond Trustee or the Security Trustee, (as applicable), in the Bond Trust Deed, the other Programme Documents and/or the Conditions.

The Bond Trustee may without the consent of any of the Covered Bondholders of any Series, the related Receiptholders and/or Couponholders and without the consent of any other Secured Creditor and without prejudice to its rights in respect of any subsequent breach, Issuer Event of Default, Potential Issuer Event of Default, Covered Bond Guarantor Event of Default or Potential Covered Bond Guarantor Event of Default from time to time and at any time but only if in so far as in its opinion the interests of the Covered Bondholders of any Series shall not be materially prejudiced thereby, waive or authorise, or direct the Security Trustee to waive or authorise, any breach or proposed breach by the Issuer, the Guarantor or the Covered Bond Guarantor or any other person of any of the covenants or provisions contained in the Bond Trust Deed, the other Programme Documents or the Conditions or determine that any Issuer Event of Default, Potential Issuer Event of Default, Covered Bond Guarantor Event of Default or Potential Covered Bond Guarantor Event of Default shall not be treated as such for the purposes of the Bond Trust Deed, PROVIDED ALWAYS THAT the Bond Trustee shall not exercise any powers conferred on it in contravention of any express direction given by Extraordinary Resolution or by a request under Condition 9(a) or 9(b) (*Events of Default and Enforcement*) but so that no such direction or request shall affect any waiver, authorisation or determination previously given or made. Any such waiver, authorisation or determination may be given or made on such terms and subject to such conditions (if any) as the Bond Trustee may determine, shall be binding on the Covered Bondholders, the related Receiptholders and/or the Couponholders and, if, but only if, the Bond Trustee shall so require, shall be notified by the Issuer, the Guarantor or the Covered Bond Guarantor (as the case may be) to the Covered Bondholders in accordance with Condition 14 (*Notices*) as soon as practicable thereafter.

Subject to as provided below, the Bond Trustee shall be bound to waive or authorise, or direct the Security Trustee to waive or authorise, any breach or proposed breach by the Issuer, the Guarantor or the Covered Bond Guarantor or any other person of any of the covenants or provisions contained in the Bond Trust Deed, the other Programme Documents or the Conditions or determine that any Issuer Event of Default, Potential Issuer Event of Default, Covered Bond Guarantor Event of Default or Potential Covered Bond Guarantor Event of Default shall not be treated as such for the purposes of the Bond Trust Deed if it is: (i) in the case of such waiver or authorisation, (a) so directed by Extraordinary Resolution of the Covered Bondholders of the relevant one or more Series (with the Covered Bonds of all such Series taken together as a single Series in the circumstances provided in the Bond Trust Deed and, if applicable, converted into NZ dollars at the relevant Swap Rate) or (b) requested to do so in writing by the holders of not less than 25 per cent. of the Principal Amount Outstanding of the Covered Bonds of the relevant one or more Series (with the Covered Bonds of all such Series taken together as a single Series in the circumstances provided in the Bond Trust Deed and, if applicable, converted into NZ dollars at the relevant Swap Rate) or (ii), in the case of any such determination, (a) so directed by an Extraordinary Resolution of the Covered Bondholders of all Series then outstanding with the Covered Bonds of all Series taken together as a single Series and, if applicable, converted into NZ dollars at the relevant Swap Rate) or (b) requested to do so in writing by the holders of not less than 25 per cent. of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding with the Covered Bonds of all Series taken together as a single Series and, if applicable, converted into NZ dollars as aforesaid), and at all times then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing.

The Security Trustee may, without the consent of the Secured Creditors (other than any Secured Creditor who is a party to the relevant document) and without prejudice to its right in respect of any further or other breach, from time to time and at any time, but only if so directed by (a) the Bond Trustee, so long as there are any Covered Bonds outstanding or (b) all of the other Secured Creditors, if there are no Covered Bonds outstanding, authorise or waive any proposed or actual breach of any of the covenants or provisions contained in any Programme Document and/or agree to any modification to any Programme Document. Any such authorisation or waiver or modification shall be binding on the Secured Creditors and, unless the Bond Trustee otherwise agrees, notice thereof shall be given by the Issuer or the Guarantor or the Covered Bond Guarantor (as the case may be) to the Secured Creditors as soon as practicable thereafter.

Any such modification, waiver, authorisation or determination shall be binding on all the Covered Bondholders of all Series of Covered Bonds for the time being outstanding, the related Receiptholders and the Couponholders and the other Secured Creditors, and unless the Bond Trustee otherwise agrees, any such modification shall be notified by the Issuer, to the Covered Bondholders of all Series of Covered Bonds for the time being outstanding and the other Secured Creditors in accordance with Condition 14 (*Notices*) as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Bond Trustee and the Security Trustee shall have regard to the general interests of the Covered Bondholders of each Series as a class (but shall not have regard to any interests arising from circumstances particular to individual Covered Bondholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Covered Bondholders, the related Receiptholders, Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Bond Trustee and the Security Trustee shall not be entitled to require, nor shall any Covered Bondholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Guarantor, the Covered Bond Guarantor, the Bond Trustee, the Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Covered Bondholders, Receiptholders and/or Couponholders, except to the extent already provided for in Condition 7 (*Taxation*) and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 7 (*Taxation*) pursuant to the Bond Trust Deed.

Prior to the Bond Trustee and/or the Security Trustee making or granting any waiver, authorisation or determination pursuant to this Condition, the Guarantor must send written confirmation to the Bond Trustee and Security Trustee that: (i) any such waiver, authorisation or determination would not require the RBNZ to be notified; or (ii) if such waiver, authorisation or determination would require the RBNZ to be notified, the Guarantor has provided all information required to be provided to the RBNZ and, if consent or confirmation of non-objection is required, the RBNZ has given its consent or confirmed its non-objection to the proposed waiver, authorisation or determination.

Subject to any required RBNZ consent or confirmation of non-objection, the Bond Trustee and Security Trustee shall concur in and effect any modifications to the Programme Documents that are requested by the Covered Bond Guarantor or the Trust Manager to accommodate the accession of a new Servicer, new Swap Provider or new Agent to the Programme provided that (a) each of the Swap Providers provide written confirmation to the Security Trustee consenting to such modification of those documents to which they are a party (such consent not to be unreasonably withheld); (b) the Covered Bond Guarantor or the Trust Manager, as the case may be, has certified to the Security Trustee and the Bond Trustee in writing that such modifications are required in order to accommodate the addition of the new Servicer, new Swap Provider or new Agent to the Programme; and (c) all other conditions precedent to the accession of the new Servicer, new Swap Provider or new Agent to the Programme set out in the Programme Documents have been satisfied at the time of the accession.

(b) ***Substitution***

The Bond Trust Deed provides that in connection with any scheme of amalgamation or reconstruction of the Issuer or, as the case may be, the Guarantor not involving the bankruptcy or insolvency of the Issuer or, as the case may be, the Guarantor and (A) where the Issuer or, as the case may be, the Guarantor does not survive the amalgamation or reconstruction or (B) where all or substantially all of the assets and business of the Issuer or the Guarantor, as the case may be, will be disposed of to, or succeeded to, by another entity (whether by operation of law or otherwise), the Bond Trustee shall, if requested by the Issuer and (where applicable) the Guarantor, be obliged, without the consent of the Covered Bondholders, Receiptholders or Couponholders, at any time to agree to the substitution in the place of (a) the Issuer as principal debtor under the Covered Bonds, Receipts, Coupons and the Bond Trust Deed or (b) the Guarantor as guarantor of Covered Bonds, of another company (the "**Substituted Debtor**") being the entity with and into which the Issuer or the Guarantor, as the case may be, amalgamates or the entity to which all or substantially all of the business and assets of the Issuer or the Guarantor is transferred, or succeeded to, pursuant to such scheme of amalgamation or reconstruction (whether by operation of law or otherwise), subject to, *inter alia*:

- (i) the Substituted Debtor entering into a supplemental trust deed in form and manner satisfactory to the Bond Trustee agreeing to be bound by the Bond Trust Deed with any consequential amendments which the Bond Trustee may deem appropriate as fully as if the Substituted Debtor had been named in the Bond Trust Deed as principal debtor or guarantor in place of the Issuer or the Guarantor, as the case may be;
- (ii) the Substituted Debtor acquiring or succeeding to pursuant to such scheme of amalgamation or reconstruction all or substantially all of the assets and business of the Issuer or the Guarantor, as the case may be;
- (iii) the obligations of the Substituted Debtor being or remaining guaranteed by the Guarantor on the terms set out in the Bond Trust Deed; and
- (iv) confirmations being received by the Bond Trustee from each Rating Agency that the substitution will not adversely affect the rating of the Covered Bonds.

Any such supplemental trust deed or undertaking shall, if so expressed, operate to release the Issuer or the Guarantor, as the case may be, or in either case the previous substitute as aforesaid from all of its obligations as principal debtor or guarantor, as the case may be, under the Bond Trust Deed.

In addition, subject as further provided in the Bond Trust Deed, the Bond Trustee may without the consent of the Covered Bondholders, Receiptholders or Couponholders at any time agree with the Issuer and the Guarantor to the substitution in place of the Issuer (or any previous substitute under this Condition) as the principal debtor under the Covered Bonds, Receipts, Coupons and the Bond Trust Deed of any Subsidiary of the Issuer or the Guarantor subject to (a) all amounts payable under the Bond Trust Deed continuing to be guaranteed by the Guarantor, (b) the Bond Trustee being satisfied that the interests of the Covered Bondholders will not be materially prejudiced by the substitution and (c) certain other conditions set out in the Bond Trust Deed being complied with.

Any substitution pursuant to this Condition 11(b) shall be binding on the Covered Bondholders, the Receiptholders and the Couponholders and, unless the Bond Trustee agrees otherwise, shall be notified by the Issuer to the Covered Bondholders not later than 14 days after any such substitution in accordance with Condition 14 (*Notices*).

It shall be a condition of any substitution pursuant to this Condition 11(b) that the Covered Bond Guarantee shall remain in place or be modified to apply *mutatis mutandis* and continue in full force and effect in relation to any Substituted Debtor.

(c) ***Rating Agencies***

If:

- (i) a confirmation or affirmation of rating or other response by a Rating Agency is a condition to any action or step under any Programme Document; and
- (ii) the Trust Manager has delivered to the Covered Bond Guarantor (copied to the Seller and each Rating Agency) written confirmation that it has notified the Rating Agencies of the action or step and that the Trust Manager is satisfied, following discussions with the Rating Agencies, that the action or step, as applicable, will not result in a reduction, qualification or withdrawal of the ratings then assigned by the Rating Agencies and the Rating Agency does not consider such confirmation necessary,

the parties shall be entitled to assume that the then current rating of the Covered Bonds from that Rating Agency will not be downgraded or withdrawn by such Rating Agency as a result of such action or step.

The Bond Trustee shall be entitled to treat as conclusive a certificate signed by an Authorised Signatory of the Issuer or the Covered Bond Guarantor as to any matter referred to in (ii) above and the Bond Trustee shall not be responsible for any loss, liabilities, costs, damages, expenses or inconvenience that may be caused as a result.

(d) ***Legislative Exchange***

Following the coming into force in New Zealand, at any time after the Programme Date, of any legislation, rules, regulations or guidelines published by any governmental authority that provide for the regulation of covered bonds issued by New Zealand issuers, each Issuer may agree with the Bond Trustee and without the consent of the Security Trustee, the Covered Bondholders, the Receiptholders or the Couponholders, to exchange, provided that such exchange is necessary in the opinion of the Issuer (as certified to the Bond Trustee in accordance with Condition 11(d)(ii) below) for the Covered Bonds to comply with any new legislation, rules, regulations or guidelines and such compliance cannot be attained through the modification of the Programme Documents, all (but not some only) of the Covered Bonds of all Series then outstanding (the "**Existing Covered Bonds**") for new Covered Bonds which are regulated by such new legislation, rules, regulations or guidelines (the "**New Covered Bonds**") and to the extent permitted by such new legislation, rules, regulations or guidelines, are in identical form, amount and denomination as the Existing Covered Bonds and on the same economic terms and conditions as the Existing Covered Bonds (the "**Legislative Exchange**") if not more than 60 nor less than 30-days' notice to the Covered Bondholders (in accordance with Condition 14 (*Notices*)), the Bond Trustee and the Principal Paying Agent is given by each Issuer and provided that:

- (i) on the date on which such notice expires each Issuer delivers to the Bond Trustee a certificate signed by two Directors of such Issuer confirming that (a) no Issuer Event of Default (as defined in Condition 9 (*Events of Default and Enforcement*)) or Potential Issuer Event of Default (as defined in this Condition 11) and (b) no Covered Bond Guarantor Event of Default (as defined in Condition 9 (*Events of Default and Enforcement*)) or Potential Covered Bond Guarantor Event of Default (as defined in this Condition 11), shall have occurred and be continuing (disregarding for the purposes of this certificate any such event which occurs or which has occurred due to the implementation of such legislation, rules, regulations or guidelines);
- (ii) each Issuer delivers to the Bond Trustee a certificate signed by two directors of such Issuer certifying that the New Covered Bonds are in identical form, amount and denomination as the Existing Covered Bonds to the extent permitted by such new legislation, rules, regulations or guidelines and that such exchange is necessary in the opinion of the Issuer for the Covered Bonds to comply with the new legislation, rules, regulations or guidelines;
- (iii) each Issuer will comply with such other requirements as the Bond Trustee may direct in the interests of Covered Bondholders;
- (iv) the documents constituting the New Covered Bonds are in form and substance satisfactory to the Bond Trustee;

- (v) each Rating Agency which has previously assigned a rating to the Existing Covered Bonds confirms to the Relevant Issuer in writing that the New Covered Bonds will be assigned the same rating as is then applicable to the Existing Covered Bonds;
- (vi) if the Existing Covered Bonds are listed, quoted and/or traded on or by a competent and/or relevant listing authority, stock exchange and/or quotation system on or before the date on which such notice expires, each Issuer delivers to the Bond Trustee a certificate signed by two Directors of such Issuer confirming that all applicable rules of such competent and/or relevant listing authority, stock exchange and/or quotation system have been or will be complied with (or compliance with such rules has been waived by the relevant listing authority, stock exchange and/or quotation system); and
- (vii) each Issuer will procure delivery of legal opinions addressed to the Bond Trustee on the date of such exchange, in form and content satisfactory to the Trustee as to such law as the Bond Trustee may request.

The Existing Covered Bonds will be cancelled concurrently with the issue of the New Covered Bonds and with effect on and from the date of issue thereof all references herein to Covered Bonds shall be deemed to be references to the New Covered Bonds and the Bond Trustee may, pursuant to the provisions described in this Condition 11, agree with the Relevant Issuer and the Covered Bond Guarantor such modifications to the Programme Documents as may be necessary for the issue of the New Covered Bonds under the new legislation, rules, regulations or guidelines.

For the purposes of this Condition 11:

"Potential Issuer Event of Default" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Issuer Event of Default;

"Potential Covered Bond Guarantor Event of Default" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute a Covered Bond Guarantor Event of Default; and

"Series Reserved Matter" in relation to Covered Bonds of a Series means any proposal:

- (i) to amend the dates of maturity or redemption of the Covered Bonds, or any date for payment of interest or Interest Amounts on the Covered Bonds or the obligation of the Issuer to pay additional amounts pursuant to Condition 7 (*Taxation*), (ii) to reduce or cancel the Principal Amount Outstanding of, or any premium payable on redemption of, the Covered Bonds, (iii) to reduce the rate or rates of interest in respect of the Covered Bonds or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Covered Bonds, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount is set out in the Final Terms, to reduce any such amount, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or Specified Denomination of the Covered Bonds, (vii) to take any steps that as specified in the Final Terms may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, or (viii) to modify the provisions concerning the quorum required at any meeting of Covered Bondholders or the majority required to pass the Extraordinary Resolution.

12. Replacement of Covered Bonds, Receipts, Coupons and Talons and Exchange of Talons

- (a) Should any Covered Bond, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced subject to applicable laws, regulations and listing authority, stock exchange and/or quotation system regulations at the specified office of the Principal Paying Agent in London (in the case of Bearer Covered Bonds, Receipts, Coupons or Talons) or the specified office of the relevant Registrar (in the case of Registered Covered Bonds), or any other place approved by the Bond Trustee of which notice shall have been published in accordance with Condition 14 (*Notices*) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Covered Bond, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Covered Bonds, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Covered Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.
- (b) On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 8 (*Prescription*).

13. **Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Covered Bondholders, the Receiptholders or the Couponholders to create and issue further bonds having terms and conditions the same as the Covered Bonds of any Series or the same in all respects save for the amount and date of the first payment of interest thereon, issue date and/or purchase price and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds of such Series.

14. **Notices**

All notices regarding the Bearer Covered Bonds will be valid if published in a leading English language daily newspaper of general circulation in London. It is expected that any such newspaper publication will be made in the Financial Times in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Bearer Covered Bonds are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers or where published in such newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Bond Trustee shall approve.

All notices regarding the Registered Covered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Covered Bonds are admitted to trading on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any Definitive Covered Bonds are issued, there may, so long as the Covered Bonds are represented in their entirety by any Global Covered Bonds held on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, be substituted for such publication in such newspaper(s) or such mailing the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the Covered

Bondholders and, in addition, for so long as any Covered Bonds are listed on a stock exchange or admitted to trading by any other relevant authority and the rules of that stock exchange, or as the case may be, other relevant authority so require, such notice or notices will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the Covered Bondholders on the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and /or DTC.

Notices to be given by any Covered Bondholder shall be in writing and given by lodging the same, together (in the case of any Covered Bond in definitive form) with the relative Covered Bond or Covered Bonds, with the Agent (in the case of the Bearer Covered Bonds) or the relevant Registrar (in the case of Registered Covered Bonds). Whilst any of the Covered Bonds are represented by a Global Covered Bond, such notice may be given by any holder of a Covered Bond to the Principal Paying Agent or the relevant Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the relevant Registrar and/or Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

15. **Indemnification of the Bond Trustee and the Security Trustee and the Bond Trustee and Security Trustee contracting with an Issuer, the Guarantor and/or the Covered Bond Guarantor**

If, in connection with the exercise of its powers, trusts, authorities or discretions the Bond Trustee is of the opinion that the interests of the Covered Bondholders of any one or more series would be materially prejudiced thereby, the Bond Trustee shall not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders of the relevant Series by Extraordinary Resolution or by a direction in writing of such Covered Bondholders of at least 25 per cent. of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding or as otherwise required under the Programme Documents.

The Bond Trust Deed and the Security Deed contain provisions for the indemnification of the Bond Trustee and the Security Trustee and for their relief from responsibility, including provisions relieving them from taking any action unless indemnified and/or secured and/or prefunded to their satisfaction.

The Bond Trust Deed and the Security Deed also contain provisions pursuant to which each of the Bond Trustee and Security Trustee, respectively, is entitled, *inter alia*: (i) to enter into business transactions with an Issuer, the Guarantor, the Covered Bond Guarantor and/or any of their respective Subsidiaries and affiliates and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, an Issuer, the Guarantor, the Covered Bond Guarantor and/or any of their respective Subsidiaries and affiliates; (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Covered Bondholders, Receiptholders or Couponholders or the other Secured Creditors; and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

Neither the Bond Trustee nor the Security Trustee will be responsible for any loss, expense or liability which may be suffered as a result of any Housing Loans or Related Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons whether or not on behalf of the Bond Trustee and/or the Security Trustee. Neither the Bond Trustee nor the Security Trustee will be responsible for *inter alia*: (i) supervising the performance by an Issuer, the Guarantor or any other party to the Programme Documents or any Independent Adviser of their respective obligations under the Programme Documents and the Bond Trustee and the Security Trustee will be entitled to assume, until they each have written notice to the contrary, that all such persons are properly performing their duties; (ii) considering the basis on which approvals or consents are granted by an Issuer, the Guarantor or any other party to the Programme Documents under the Programme Documents; (iii) monitoring the Housing Loan Portfolio, including, without limitation, whether the Housing Loan Portfolio is in compliance with the Asset Coverage Test, the Pre-Maturity Test or the Amortisation Test; or (iv) monitoring whether Housing Loans are

Qualifying Housing Loans. Neither the Bond Trustee nor the Security Trustee will be liable to any Covered Bondholder or other Secured Creditor for (a) any failure to make or to cause to be made on their behalf the searches, investigations and enquiries which would normally be made by a prudent secured creditor in relation to the Security and have no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Programme Documents or (b) the acts or omissions of any Independent Adviser.

The Bond Trustee may refrain from taking any action or exercising any right, power, authority or discretion vested in it relating to the transactions contemplated in the Programme Documents until it has been indemnified and/or secured and/or prefunded to its satisfaction against any and all actions, charges, claims, costs, damages, demands, expenses, liabilities, losses and proceedings which might be sustained by it as a result and will not be required to do anything which may cause it to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights, powers, authorities or discretions if it has reasonable grounds for believing that repayment of such funds or adequate indemnity, security or prefunding against such liability is not assured to it.

16. **Limited Recourse and non-petition**

- (a) Only the Security Trustee may pursue the remedies available under the general law or under the Security Deed to enforce the Security and no Transaction Party shall be entitled to proceed directly against the Covered Bond Guarantor to enforce the Security. In particular, each Transaction Party (other than the Covered Bond Guarantor and the Security Trustee) has agreed with and acknowledges to each of the Covered Bond Guarantor and the Security Trustee, and the Security Trustee agreed with and acknowledged to the Covered Bond Guarantor, that:
 - (i) none of the Transaction Parties (nor any person on their behalf, other than the Security Trustee where appropriate) is entitled, otherwise than as permitted by the Programme Documents, to direct the Security Trustee to enforce the Security or take any proceedings against the Covered Bond Guarantor to enforce the Security;
 - (ii) none of the Transaction Parties (other than the Security Trustee) shall have the right to take or join any person in taking any steps against the Covered Bond Guarantor for the purpose of obtaining payment of any amount due from the Covered Bond Guarantor to any of such Transaction Parties;
 - (iii) until the date falling two years after the Vesting Date none of the Transaction Parties nor any person on their behalf shall initiate or join any person in initiating an Insolvency Event in relation to the Trust other than a Receiver appointed under clause 15 of the Security Deed; and
 - (iv) none of the Transaction Parties shall be entitled to take or join in the taking of any corporate action, legal proceedings or other procedure or step which would result in the Priorities of Payments not being complied with.
- (b) The Covered Bondholders agree with and acknowledge to each of the Covered Bond Guarantor and the Security Trustee, and the Security Trustee has agreed with and acknowledged to the Covered Bond Guarantor, that notwithstanding any other provision of any Programme Document, all obligations of the Covered Bond Guarantor to such party including, without limitation, the Secured Obligations, are limited in recourse to the Covered Bond Guarantor as set out below:
 - (i) it will have a claim only in respect of the Charged Property and will not have any claim, by operation of law or otherwise, against, or recourse to, any of the Covered Bond Guarantor's other assets;
 - (ii) sums payable to each party in terms of the Covered Bond Guarantor's obligations to such party shall be limited to the lesser of (a) the aggregate

amount of all sums due and payable to such party and (b) the aggregate amounts received, realised or otherwise recovered and immediately available for payment by or for the account of the Covered Bond Guarantor in respect of the Charged Property whether pursuant to enforcement of the Security or otherwise, net of any sums which are payable by the Covered Bond Guarantor in accordance with the Priorities of Payments in priority to or *pari passu* with sums payable to such party; and

(iii) upon the Security Trustee giving written notice to the relevant party that it has determined in its opinion, and the Servicer having certified to the Security Trustee, that there is no reasonable likelihood of there being any further realisations in respect of the Charged Property (whether arising from an enforcement of the Security or otherwise) which would be available to pay unpaid amounts outstanding under the relevant Programme Document, the relevant party shall have no further claim against the Covered Bond Guarantor in respect of any such unpaid amounts and the obligations to pay such unpaid amounts shall be discharged in full.

(c) To the extent permitted by law, no recourse under any obligation, covenant, or agreement of any person contained in the Programme Documents shall be had against any shareholder, officer, agent or director of such person as such, by the enforcement of any assessment or by any legal proceeding, by virtue of any statute or otherwise; it being expressly agreed and understood that the Programme Documents are corporate obligations of each person expressed to be a party thereto and no personal liability shall attach to or be incurred by the shareholders, officers, agents or directors of such person as such, or any of them, under or by reason of any of the obligations, covenants or agreements of such person contained in the Programme Documents, or implied therefrom, and that any and all personal liability for breaches by such person of any of such obligations, covenants or agreements, either under any applicable law or by statute or constitution, of every such shareholder, officer, agent or director is expressly waived by each person expressed to be a party thereto as a condition of and consideration for execution of the Programme Documents.

17. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of this Covered Bond under the Contracts (Rights of Third Parties) Act 1999.

18. **Governing Law**

The Bond Trust Deed (including the Guarantee and the Covered Bond Guarantee), the Principal Agency Agreement, the Covered Bonds, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law unless specifically stated to the contrary.

19. **Jurisdiction**

Each of the Issuers and the Guarantor agrees for the benefit of the holders of Covered Bonds, Receipts, Coupons and Talons that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Covered Bonds and all matters connected with the Covered Bonds, Receipts, Coupons and Talons (including a dispute relating to any non-contractual obligation arising out of or in connection with them) (respectively, "**Proceedings**" and "**Disputes**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

20. **Service of process**

Each of the Issuers and the Guarantor agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to the officer in charge of the London branch of Australia and New Zealand Banking Group Limited at 40 Bank Street,

Canary Wharf, London E14 5EJ. If such person is not or ceases to be effectively appointed to accept service of process on the Issuer's or the Guarantor's behalf, the Issuer or the Guarantor, as applicable, shall appoint a further person in England to accept service of process on the Issuer's or the Guarantor's behalf and, failing such appointment, within 15 days, the Bond Trustee shall be entitled to appoint such a person by written notice addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the specified office of the Principal Paying Agent. Nothing in this paragraph shall affect the right of the Bond Trustee to serve process in any other manner permitted by law.

USE OF PROCEEDS

The net proceeds from each issue of Covered Bonds by ANZ New Zealand will be used for the general corporate purposes of ANZ New Zealand and its subsidiaries. The net proceeds from each issue of Covered Bonds by ANZNIL will be on-lent to ANZ New Zealand for the general corporate purposes of ANZ New Zealand and its subsidiaries.

REGULATION AND SUPERVISION

The supervisory role of the RBNZ

The RBNZ 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 RBNZ 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 29 May 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 replaces the requirement for banks registered in New Zealand to issue disclosure statements for off-quarters of the financial year. See "*—Financial reporting*" for further discussion. 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 in this Prospectus and does not form part of this Prospectus 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. From 1 January 2014, the RBNZ has also required most banks incorporated in New Zealand, including ANZ New Zealand, to maintain a conservation buffer of 2.5 per cent. above the minimum ratios or face restrictions on distributions. The RBNZ also has the discretion (effective from 1 January 2014) to apply a countercyclical buffer of common equity with an indicative range of between 0 and 2.5 per cent., although there is no formal upper limit. Counterparty credit risk requirements and additional disclosure requirements to incorporate Basel III changes have been in effect since 31 March 2013.

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 per cent., 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 BCBS's new liquidity requirements.

The RBNZ currently also requires all registered banks to obtain and maintain a credit rating from an approved organisation 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:

- (a) commence or continue any action or other proceedings including proceedings by way of counterclaim against that bank;
- (b) issue any execution, attach any debt, or otherwise enforce or seek to enforce any judgment or order obtained in respect of that bank;
- (c) take any steps to put that bank into liquidation; or
- (d) 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 per cent. or

more of the Board of Directors of a registered bank or a qualifying interest (e.g., legal or beneficial ownership) in 10 per cent. 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.

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. 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.

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 1 July 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 to take place by 30 September 2018. Holders of Covered Bonds, Coupons or Receipts 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— The ANZ New Zealand Group is exposed to 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), which may adversely affect its business, operations, financial condition and reputation*" for more information.

Covered bonds

The Reserve Bank of New Zealand (Covered Bonds) Amendment Act 2013 (the "**Amendment Act**") established a legislative framework for covered bonds in New Zealand. The Amendment Act provides legal certainty as to the treatment of cover pool assets in the event of an issuer's liquidation or statutory management. The key aspects of the framework are:

- (a) mandatory registration of New Zealand banks' covered bond programmes, subject to meeting registration requirements;
- (b) requiring cover pool assets to be held by a special purpose vehicle ("**SPV**") that is a separate legal entity from the issuer;
- (c) independent monitoring of cover pools by a cover pool monitor; and
- (d) clarification of the treatment of cover pool assets held by a covered bond SPV in the event that an issuer is placed into statutory management or liquidation.

Amendments to the Programme Documents were made to comply with the requirements of the Amendment Act and the Programme was registered on 8 August 2014. Issuers are prohibited from issuing covered bonds other than under registered programmes.

Recent developments

RBNZ prudential credit controls

The RBNZ imposes restrictions on high loan-to-value ratio ("**LVR**") residential mortgage lending. Revised conditions of registration came into force on 1 January 2018, requiring New Zealand banks to restrict new non property-investment residential mortgage lending over 80 per cent. LVR to no more than 15 per cent. 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 per cent. LVR to no more than 5 per cent. of the dollar value of a bank's new property investment residential mortgage lending.

Financial reporting

The RBNZ has removed the requirement that banks registered in New Zealand publish "off-quarter" disclosure statements, with effect for the quarter ending 31 March 2018. On 29 May 2018, the RBNZ began publishing a quarterly "dashboard" of key information on banks incorporated in New Zealand on the RBNZ's website. The information is sourced from private reporting that such banks provide to the RBNZ. All banks registered in New Zealand are still required to publish disclosure statements for the half-year and full-year periods. 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 in this Prospectus and does not form part of this Prospectus 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.

RBNZ review of capital requirements

In May 2017 the RBNZ published an issues paper that outlined the comprehensive review of the capital adequacy framework applying to New Zealand locally incorporated registered banks that the RBNZ is undertaking during 2017 and 2018. 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 6 July 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.

The RBNZ expects to consult stakeholders in 2019 on the details of these decisions.

The RBNZ has advised that a Quantitative Impact Study will be conducted in the third quarter of the 2018 calendar year.

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 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

In September 2017, the RBNZ released its updated outsourcing policy ("**BS11**"). BS11 applies to all new outsourcing arrangements entered into from 1 October 2017. Existing outsourcing arrangements have until 1 October 2022, to transition to compliance with BS11. The BS11 requirements form part of ANZ New Zealand's conditions of registration.

The key features of BS11 as it applies to ANZ New Zealand are:

- all new outsourcing arrangements to or through a related party, including ANZBGL (in the case of ANZ New Zealand), require RBNZ non-objection, unless the service or function is on the "pre-approved services and functions list" or on the "white list" (each of which will be maintained by the RBNZ);
- defined risk mitigants must be in place for all outsourcing arrangements. This includes ensuring mandatory contractual terms are included in the outsourcing agreement, maintaining evidence that the provider has appropriate disaster recovery or business continuity arrangements in place and, for related party outsourcing, robust back-up arrangements which are within the legal and practical control of ANZ New Zealand, and which can be deployed within 6 hours of a failure event occurring (or by the start of the next business day for some functions). At its discretion, the RBNZ may provide non-objection where there are "alternative arrangements" in place, instead of robust back-up;
- where outsourcing arrangements relate to 'basic banking services', the back-up arrangements must be capable of operating indefinitely on a fully automated basis. Where this is not the

case, the back-up arrangements must be sufficiently robust to close out and manage the wind down of those products on a standalone basis;

- ANZ New Zealand must have a compendium of all outsourcing arrangements by 1 October 2019. The compendium must be embedded in compliance systems and form part of board and senior management oversight and governance reviews. All new outsourcing arrangements must be entered into the compendium within 20 working days of becoming effective;
- ANZ New Zealand must have a separation plan that describes how ANZ New Zealand 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. The separation plan must assume an abrupt loss of access to services or functions provided by related parties. A final separation plan, fully compliant with BS11, must be in place by 1 October 2022 and will be subject to annual testing; and
- an independent review is required on an annual basis during the five-year transition period to assess progress and compliance of transitioned arrangements.

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

Non-compliance with ANZ New Zealand's Conditions of Registration in relation to outsourcing may lead to enforcement action by the RBNZ, including imposition of fines or further restrictions on our use of outsourcing.

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 Parliament in the 2018 calendar year. 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.

FMA 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.

MBIE review of the Financial Advisers Act 2008

Since 2015, MBIE has been conducting a review of the Financial Advisers Act 2008, which is the primary legislation governing the provision of financial advice in New Zealand. Following that review the New Zealand Government announced in 2016 its intention to amend the existing regime and an exposure draft of the Financial Services Legislation Amendment Bill (the "**Bill**") was released for submissions in early 2017. Submissions on the draft Bill closed in March 2017 and the Bill had its first reading in Parliament in December 2017. The Select Committee report was released on 31 July 2018. The key amendments proposed in the Bill include:

- 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.

The Bill will repeal the Financial Advisers Act 2008 and the provisions for the new financial advice regime will be placed in the Financial Markets Conducts Act 2013 ("**FMCA**"). The Bill also amends the Financial Service Providers (Registration and Dispute Resolution) Act 2008 ("**FSP Act**").

Anti-Money Laundering and Countering Financing of Terrorism Act 2009

In August 2017, the Anti-Money Laundering and Countering Financing of Terrorism Act Amendment Bill (the "**AML/CFT Amendment Act**") received Royal Assent in New Zealand, extending the scope of the AML/CFT Act. The AML/CFT Amendment Act expands the AML/CFT Act to include some additional non-financial institution business sectors as "reporting entities", aligning with best practice recommendations set down by the Financial Action Task Force. The AML/CFT Amendment Act also extends the current suspicious transaction reporting obligation to include an obligation to report suspicious activity, expands the scope of the provisions in the AML/CFT Act that enable a reporting entity to rely on customer due diligence carried out by other persons and creates some additional simplified customer due diligence categories.

In addition, new regulations made in 2016 obligate reporting entities (including ANZ New Zealand) to 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 (irrespective of any suspicion that may or may not exist relating to the underlying transaction). The new regulations came into force on 1 November 2017, but a transitional compliance period applied until 1 July 2018, for reporting entities that intend to comply with the regulations by submitting automated reports. These

regulations sit alongside existing obligations on reporting entities to report suspicious transactions / activity.

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 23 November 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 RBNZ Act (see "*—Review of the RBNZ Act*" below).

Review of the RBNZ Act

In November 2017, the New Zealand Government announced it would undertake a review of the RBNZ Act and the Terms of Reference for the review of the RBNZ 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 26 March 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 26 July 2018, the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill (the "**Amendment Bill**"), which implements these policy decisions, passed its first reading in Parliament. The Amendment Bill has been referred to the Finance and Expenditure Committee with a report due on 3 December 2018.
- Phase two will primarily involve a comprehensive review of the financial policy provisions of the RBNZ Act. These provisions provide the legislative basis for the RBNZ's prudential regulation and supervision functions. Phase two will also consider the RBNZ's broader governance arrangements, including the roles of the RBNZ Board and Governor. The Terms of Reference for phase two were released on 7 June 2018. The review will be organised around the following key topics: overarching objectives and the scope, coverage, and coherence of the legislation; institutional governance, and decision-making; trans-Tasman co-ordination; prudential regulation; supervision and enforcement; resolution and crisis management; macro-prudential policy; resourcing and funding and miscellaneous issues. The review team is developing a work programme and identifying key deliverables.

RBNZ review of mortgage bond collateral standards

In November 2017, the RBNZ released a consultation paper on its review of mortgage bond collateral standards. The consultation focused 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, and proposed a new Residential Mortgage Obligations ("**RMO**") standard. The RBNZ proposed to gradually phase in RMO to replace internal residential mortgage backed securities over a 12-month transition period, beginning 1 July 2018 and ending 30 June 2019. Consultation on the initial RBNZ proposals closed on 9 March 2018. The RBNZ has begun consulting on a revised proposal with the aim of finalizing the mortgage bond collateral policy review in the second half of the 2018 calendar year.

New Zealand banks' response to the Australian Royal Commission

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 is not taking place in New Zealand. Each New Zealand bank was requested to provide a summary of work it has undertaken and ongoing work to identify and address conduct and culture issues in its business. ANZ New Zealand provided a detailed written response to the FMA and the RBNZ. As at the date of this Prospectus, the FMA and the RBNZ are conducting onsite visits, primarily to assess the validity of the written responses. The Commerce Commission will also review matters relevant to its remit. The FMA and the RBNZ expect to report on their findings in late 2018. At the date of this Prospectus, it is uncertain what further steps the FMA or the RBNZ may take.

Restrictions on ANZBGL's ability to provide financial support to its New Zealand Operations

Effect of APRA's Prudential Standards

ANZBGL is subject to extensive prudential regulation by APRA.

Under APRA's Prudential Standards, ANZBGL's ability to provide financial support to ANZ New Zealand is subject to certain requirements:

- (a) ANZBGL should not undertake any third party dealings with the primary purpose of supporting ANZ New Zealand's business;
- (b) ANZBGL must not hold unlimited exposures (i.e., should be limited to a specified time and amount) to ANZ New Zealand (e.g., not provide a general guarantee covering any of ANZ New Zealand's 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 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 ANZBGL. APRA has confirmed that by 1 January 2021 no more than 5% of ANZBGL'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 of 1 January 2016 must be reduced in equal percentages over the five-year transition period and may not increase above the exposures as of 30 June 2015. 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.

ANZ New Zealand sells, from time-to-time, residential mortgages into the New Zealand branch of ANZBGL to provide funding for its New Zealand business. As at 31 March 2018 the New Zealand branch held approximately \$3.5 billion of residential mortgages. To satisfy APRA's requirements described above, ANZ New Zealand is repurchasing these mortgages at approximately \$1.6 billion per annum over the five-year transition period ending 31 December 2020.

APRA has also stated 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 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. On this basis, ANZBGL believes it will be able to continue to provide financial support to ANZ New Zealand.

Effect of the Level 3 framework

Certain requirements of APRA's Level 3 framework relating to, among other things, group governance and risk exposures became effective on 1 July 2017. One of those requirements is that the ANZ Group must limit its financial and operational exposures to subsidiaries (including ANZ New Zealand).

In determining the acceptable level of exposure to ANZ New Zealand, the Board of ANZBGL should have regard to:

- (a) the exposures that would be approved for third parties of broadly equivalent credit status; and
- (b) the impact on ANZBGL's capital and liquidity position and ANZBGL's ability to continue operating in the event of a failure by 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

Where APRA considers that an ADI (of which ANZBGL is one) may become unable to meet its obligations or suspends payment (among other circumstances), APRA can take control of the ADI's business (including by appointment of a Banking Act statutory manager). APRA also has power to direct the ADI not to make payments in respect of its indebtedness, to compulsorily transfer some or all of the ADI's assets and liabilities or its shares to another body specified by APRA (which need not in all cases be an ADI) and to increase its capital in specified circumstances. A counterparty to a contract with an ADI cannot rely solely on the fact that Banking Act statutory manager is in control of the ADI's business or on the making of a direction or compulsory transfer order as a basis for denying any obligations to the ADI or for accelerating any debt under that contract or closing out any transaction relating to that contract.

The Banking Act 1959 of the Commonwealth of Australia (the "**Banking Act**") requires APRA to exercise its powers and functions for the protection of the depositors of ADIs and for the promotion of financial system stability in Australia.

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 ANZ New Zealand and ANZNIL. Additionally, any obligation of ANZBGL to pay or to repay money to or provide support to, or in relation to, ANZ New Zealand is subordinated to other obligations or debts required to be preferred by law, including without limitation its obligations in respect of protected accounts, which benefit from a statutory priority under the Banking Act.

Section 13A(3) of the Banking Act provides that if an ADI becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are available to meet the ADI's liabilities in the following order:

- (a) first, the ADI's liabilities to APRA in respect of any payments that APRA makes or is liable to make to (A) holders of protected accounts under the Banking Act or (B) a body corporate pursuant to a determination made by APRA in connection with a transfer of the ADI's business to that body corporate (where that transfer includes liabilities of the ADI in respect of protected accounts) under the Financial Sector (Transfer and Restructure) Act 1999 of Australia;
- (b) second, the ADI's debts in respect of costs of APRA in certain circumstances;

- (c) third, the ADI's liabilities in Australia in relation to protected accounts that account-holders keep with the ADI (broadly, this means accounts (including deposit accounts) kept with the ADI that are situated in Australia and recorded in Australian dollars);
- (d) fourth, the ADI's debts to the Reserve Bank of Australia;
- (e) fifth, the ADI's liabilities under an industry support contract that is certified under section 11CB of the Banking Act; and
- (f) sixth, the ADI's other liabilities in the order of their priority apart from paragraphs (a) to (e) above.

Section 16 of the Banking Act provides that APRA's costs (including costs in the nature of remuneration and expenses) of being in control of an ADI's business, or of having an administrator in control of an ADI's business, are payable from the ADI's funds and are a debt due to APRA. Despite anything contained in any law relating to the winding up of companies, but subject to subsection 13A(3) of the Banking Act, such debts due to APRA by an ADI have priority in a winding-up of the ADI over all other unsecured debts.

Further, under section 86 of the Reserve Bank Act 1959 of the Commonwealth of Australia, debts due by an ADI to the Reserve Bank of Australia shall in a winding-up of that ADI have, subject to subsection 13A(3) of the Banking Act, priority over all other debts.

This description of the liabilities which are mandatorily preferred by law is not exhaustive.

Section 13A(4) of the Banking Act states that it is an offence for an ADI not to hold assets (excluding goodwill and any assets or other amount excluded by the prudential standards for the purposes of that subsection) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless APRA has authorised the ADI to hold assets of a lesser value. During the half year ended 31 March 2018, ANZBGL has at all times held assets (excluding goodwill and any assets or other amounts prescribed by APRA) in Australia of not less than the value of ANZBGL's total deposit liabilities in Australia.

Australian Crisis Management

On 5 March 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 New Zealand Group, include: greater oversight, management and directions powers in relation to ANZBGL and other ANZ Group entities which were previously not regulated by APRA; increased statutory management powers over regulated entities within the ANZ Group in Australia (but APRA may not appoint a statutory manager to ANZ New Zealand or 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 20 February 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 1 July 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 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 centralised execution and clearing of many categories of standardised 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 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 the ANZ New Zealand Group's 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 finalised 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 1 March 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 1 September 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 30 May 2018 voted to release for public comment proposed revisions that are intended to streamline and simplify certain requirements of the Volcker Rule.

Conditions of Registration for ANZ Bank New Zealand Limited

These conditions apply on and after 1 January 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 per cent.;
 - (b) the Tier 1 capital ratio of the banking group is not less than 6 per cent.;
 - (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5 per cent.;
 - (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 RBNZ; and
 - (f) the bank meets the requirements of Part 3 of the RBNZ 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 RBNZ 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 RBNZ 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 RBNZ 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 RBNZ 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 RBNZ 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 per cent. 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 per cent. within any timeframe determined by the RBNZ for restoring the buffer ratio; and
- (c) have the capital plan approved by the RBNZ.

For the purposes of this condition of registration:

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the RBNZ document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

the scalar referred to in the RBNZ 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 per cent. 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; and

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

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

Credit rating of the bank¹	Connected exposure limit (% of the banking group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

(1) This table uses the rating scales of S&P, Fitch and Moody's. (Fitch's scale is identical to S&P.)

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15 per cent. 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 RBNZ 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 RBNZ 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 RBNZ has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (b) the RBNZ 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 RBNZ has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (b) the RBNZ 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 RBNZ 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 RBNZ 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 RBNZ 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 per cent. 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 RBNZ 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 RBNZ of the intended acquisition or business combination, the bank provided the RBNZ with the information required under the RBNZ 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 RBNZ in writing of the intended acquisition or business combination;
 - (ii) at the time of notifying the RBNZ of the intended acquisition or business combination, the bank provided the RBNZ with the information required under the RBNZ Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
 - (iii) the RBNZ 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 RBNZ 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 RBNZ, 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 RBNZ 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 RBNZ 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 RBNZ 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 RBNZ; and
 - (c) if the RBNZ's agreement is conditional, meets the RBNZ'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 RBNZ 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 RBNZ 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 per cent., must not exceed 5 per cent. 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 per cent., must not exceed 15 per cent. 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 RBNZ 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 RBNZ Act. However, it is part of the banking group for the purposes of ANZ New Zealand's registration.

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

The following information regarding ANZ New Zealand's parent, ANZBGL, is presented solely for your reference. ANZBGL is not providing a guarantee or any other type of credit support of the Covered Bonds.

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 14 July 1977. ANZBGL's registered office is located at Level 9, 833 Collins Street, Docklands, Victoria, 3008, Australia and the telephone number is +61 3 9683 9999. ANZBGL's Australian Business Number is ABN 11 005 357 522.

The ANZ Group provides a broad range of banking and financial products and services to retail, small business, corporate and institutional customers. Geographically, operations span Australia, New Zealand, a number of countries in the Asia Pacific region, the United Kingdom, France, Germany and the United States.

As of 31 March 2018, the ANZ Group had total assets of A\$935.1 billion and shareholders' equity excluding non-controlling interests of A\$59.4 billion. In terms of total assets among banking groups, the Group ranked in the top two in Australia¹ as of 31 March 2018 and first in New Zealand² as of 31 March 2018.

ANZBGL's principal ordinary share listing and quotation is on the Australian Securities Exchange (the "ASX"). Its ordinary shares are also quoted on the New Zealand Stock Exchange (the "NZX"). At the close of trading on 29 March 2018, ANZBGL had a market capitalisation of A\$77.9 billion, which ranked among the top five largest companies listed on the ASX³.

Business Model

The ANZ Group's business model primarily consists of raising funds through customer deposits and the wholesale debt markets and lending those funds to customers. In addition, the ANZ Group earns revenue from its Wealth activities through the provision of insurance, superannuation and funds management services, and its Markets business from sales, trading and risk management activities. The ANZ Group also provides payments and clearing solutions.

The ANZ Group's primary lending activities are personal lending covering residential home loans, credit cards and overdrafts, and lending to corporate and institutional customers.

The ANZ Group's income is derived from a number of sources, primarily:

- Net interest income – represents the difference between the interest income the ANZ Group earns on its lending activities and the interest paid on customer deposits and wholesale funding;
- Net fee and commission income – represents fee income earned on lending and non-lending related financial products and services;
- Net funds management and insurance income – represents income earned from the provision of investment, insurance and superannuation solutions;
- 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

¹ Source: Commonwealth Bank of Australia results announcement for the fiscal half year ended 31 December 2017; National Australia Bank results announcement for the fiscal half year ended 31 March 2018; Westpac Banking Corporation results announcement for the fiscal half year ended 31 March 2018.

² Source: RBNZ – Bank Financial Strength Dashboard as at 31 March 2018, S10 Banks: Balance Sheet for registered banks

³ Source: IRESS.

- Other income – includes net foreign exchange earnings, gains and losses from economic and revenue hedges as well as revenues generated from sales, trading and risk management activities in the Markets business.

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
<p>Create a simpler, better capitalised, better balanced and more agile bank.</p> <p>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.</p>
<p>Focus its efforts on areas where the ANZ Group can carve out a winning position.</p> <p>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.</p>
<p>Drive a purpose and values led transformation of the ANZ Group.</p> <p>Create a stronger sense of core purpose, ethics and fairness, investing in leaders who can help sense and navigate a rapidly changing environment.</p>
<p>Build a superior everyday experience for the ANZ Group's customers and its people to compete in the digital age.</p> <p>Build more convenient, engaging banking solutions to simplify the lives of customers and the ANZ Group's people.</p>

Principal activities of the ANZ Group

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

As part of the broader simplification strategy for the Group, there have been several structural changes during the March 2018 half, 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 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 March 2018 half. 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 31 March 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, the contact centre 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 business 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, structured trade and asset 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 Group's interest rate exposure and liquidity position.

New Zealand

The New Zealand division comprises the Retail and Commercial Business Units.

- Retail provides a full range of banking and wealth management services to consumer, private banking and small business banking customers. The ANZ New Zealand Group deliver its services via its internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centres.
- 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.

Wealth Australia

The Wealth Australia division comprises certain discontinued business operations subject to sales agreements with IOOF and Zurich as described below.

On 17 October 2017, the ANZ Group announced it had agreed to sell its OnePath P&I businesses and aligned dealer groups business to Australian Wealth Management Limited, a wholly owned subsidiary of IOOF. The aligned dealer groups business consists of aligned advice businesses that operate under their own Australian Financial Services licenses. Completion is expected to occur in the first half of the 2019 fiscal year, subject to the satisfaction of certain conditions including the receipt of certain regulatory approvals and completing the extraction of the OnePath P&I businesses from OnePath Life Australia.

On 12 December 2017, the ANZ Group announced that it had agreed to sell OnePath Life Australia to Zurich to further simplify the ANZ Group's Wealth Australia division. Completion is expected to occur in the first half of the 2019 fiscal year, subject to the satisfaction of certain conditions including the receipt of certain regulatory approvals.

The retained and continuing Wealth Australia business includes lenders mortgage insurance, share investing, financial planning and general insurance distribution.

Asia Retail & Pacific

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

- Asia Retail and Wealth provides general banking and wealth management services to affluent and emerging affluent retail customers via relationship managers, branches, contact centres and a variety of self-service digital channels (internet and mobile banking, phone and ATMs). Core products offered include deposits, credit cards, loans, investments and insurance. 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 on 31 October 2016, and its Retail business in Vietnam to Shinhan Bank Vietnam on 21 April 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.
- 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 Centre

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. The sales of Shanghai Rural Commercial Bank and partial sale of the ANZ Group's interest in Metrobank Card Corporation, which are two of ANZ Group's minority investments in Asia were completed in the March 2018 half.

THE ANZ NZ COVERED BOND TRUST

The Trust

The ANZ NZ Covered Bond Trust (the "Trust") is a special purpose trust established by the Establishment Deed under New Zealand law on 11 February 2011. The Covered Bond Guarantor is the trustee of the Trust.

The Covered Bond Guarantor's principal office is at Level 9, 34 Shortland Street, Auckland, 1010, New Zealand. The telephone number of the Covered Bond Guarantor's principal office is +64 4 498 2283.

The Covered Bond Guarantor is dependent on the Trust Manager, the Servicer and the Calculation Manager (among others) to provide certain management and administrative services to it, on the terms of the Establishment Deed and the other Programme Documents.

The principal activities of the Trust are set out in the Establishment Deed and include the acquisition, management and sale of, amongst other things, Housing Loans and the Related Security, the borrowing of moneys to fund the acquisition of such assets, the hedging of risks associated with such assets and such funding, the acquisition, management and sale of Substitution Assets and Authorised Investments, the giving of guarantees, the granting of security and any other business as the Trust Manager shall direct (with the prior written consent of the Security Trustee, prior to the release of the Security constituted by the Security Deed for as long as the Covered Bonds are outstanding).

The Trust has not engaged since its establishment, and will not engage whilst the Covered Bonds or the Term Advances remain outstanding, in any material activities other than activities incidental to its establishment, activities contemplated under the Programme Documents to which it is or will be a party and other matters which are incidental or ancillary to the foregoing.

Beneficiaries

The Residual Income Beneficiary and the Residual Capital Beneficiary of the Trust as at the date of this Prospectus is The ANZ Staff Foundation.

Trustee of the ANZ NZ Covered Bond Trust

The Covered Bond Guarantor is the trustee of the Trust. In its capacity as trustee of the Trust, the Covered Bond Guarantor's principal business is to acquire, *inter alia*, Housing Loans and the Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement and to guarantee certain payments in respect of the Covered Bonds. The Covered Bond Guarantor will hold the Housing Loans forming part of the assets of the Trust and the Secured Obligations as trustee in accordance with the terms of the Programme Documents.

The Covered Bond Guarantor has provided a guarantee covering all Guaranteed Amounts when the same become Due for Payment, but only following service on the Relevant Issuer and, as applicable, the Guarantor (if ANZ NIL is the Issuer) of an Issuer Acceleration Notice and service on the Covered Bond Guarantor of a Notice to Pay, or if earlier, following the occurrence of a Covered Bond Guarantor Event of Default and service by the Bond Trustee of a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor, the Issuers and the Guarantor. The obligations of the Covered Bond Guarantor under the Covered Bond Guarantee and the other Programme Documents to which it is a party are secured by the Security Deed under which the Covered Bond Guarantor has granted security over the Charged Property.

Trust Manager

At the date of this Prospectus, the Trust Manager is ANZ Capel Court Limited. The registered office address of the Trust Manager is ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

Pursuant to the Establishment Deed, the Trust Manager will act as manager of the Trust and will provide certain administrative services required by the Trust pursuant to the Programme Documents. As compensation for the performance of the Trust Manager's obligations under the Establishment Deed

and as reimbursement for its related expenses, the Trust Manager will be entitled to a fee, which will be paid in accordance with the applicable Priority of Payments.

The directors of ANZ Capel Court Limited, the principal business address of each of whom should be regarded for the purposes of this Prospectus as being Level 10, 100 Queen Street, Melbourne, Victoria 3000, Australia, and their principal outside activities, where significant, are as follows:

David Trelawney Fisher	Director	Head of Identity and Access Management, Australia and New Zealand Banking Group Limited
John William McLean	Director	Head of Financial Institutions, America, Institutional, Australia and New Zealand Banking Group Limited
Graham David Metcalf	Director	Global Head of Structured Capital Markets, Markets, Australia and New Zealand Banking Group Limited
Joanne Elizabeth Scanlan	Director	Head of Markets Transaction Management, Markets, Australia and New Zealand Banking Group Limited

As at the date of this Prospectus, no potential conflicts or conflicts of interest exist between any duties owed to ANZ Capel Court Limited by the members of its Board of Directors listed above and their private interests and/or other duties in respect of their management roles.

Delegation by the Trust Manager

The Trust Manager may, in performing its functions under the Establishment Deed and the other Programme Documents, delegate to any service provider the performance of any of its functions and appoint any person to be delegate or sub-delegate, in each case subject to and in accordance with the provisions of the Establishment Deed and the Management Agreement, as the case may be.

SUMMARY OF THE PRINCIPAL DOCUMENTS

Bond Trust Deed

The Bond Trust Deed, entered into between the Issuers, the Guarantor, the Covered Bond Guarantor and the Bond Trustee on the Programme Date, is the principal agreement governing the Covered Bonds. The Bond Trust Deed contains provisions relating to:

- (a) the constitution of the Covered Bonds and the terms and conditions of the Covered Bonds (as more fully set out under "Terms and Conditions of the Covered Bonds" below);
- (b) the covenants of the Issuers, the Guarantor and the Covered Bond Guarantor;
- (c) the terms of the Guarantee and the Covered Bond Guarantee (as described below);
- (d) the enforcement procedures relating to the Covered Bonds, the Guarantee and the Covered Bond Guarantee; and
- (e) the appointment, powers and responsibilities of the Bond Trustee and the circumstances in which the Bond Trustee may resign or retire or be removed.

The Guarantee and the Covered Bond Guarantee

The Guarantee

Where the Issuer is ANZNIL the Guarantor has guaranteed to the Bond Trustee, for the benefit of Covered Bondholders and the Bond Trustee, the prompt performance by ANZNIL of its obligations to pay on the due dates all moneys payable under the Bond Trust Deed, the Covered Bonds, the Receipts and the Coupons.

If ANZNIL defaults in the payment on the due date of any moneys payable under or pursuant to the Bond Trust Deed, the Covered Bonds, the Receipts or the Coupons, the Guarantor, as principal obligor, shall, following service of a written demand on the Guarantor by the Bond Trustee, pay or procure to be paid to or to the order of the Bond Trustee (for the benefit of itself and the Covered Bondholders (to be applied in accordance with the Programme Documents)), in the currency and at the place and in a manner specified by the Bond Trust Deed, the amount in respect of which such default has been made or to the extent only of any amounts still then unpaid.

The Covered Bond Guarantee

The Covered Bond Guarantor has guaranteed to the Bond Trustee, for the benefit of Covered Bondholders, the prompt performance by the Issuers and the Guarantor (in the case of Covered Bonds issued by ANZNIL) of their obligations to pay an amount equal to the Guaranteed Amounts as and when the same shall become Due for Payment.

Following the occurrence of an Issuer Event of Default and the service by the Bond Trustee of an Issuer Acceleration Notice on the Relevant Issuer and, if applicable, the Guarantor and a Notice to Pay on the Covered Bond Guarantor, the Covered Bond Guarantor shall, as principal obligor, pay or procure to be paid on each Scheduled Payment Date (or on such later date provided for in the Bond Trust Deed) to or to the order of the Bond Trustee (for the benefit of the Covered Bondholders) an amount equal to those Guaranteed Amounts which shall have become Due for Payment in accordance with the terms of the Bond Trust Deed (or which would have become Due for Payment but for any variation, release or discharge of the Guaranteed Amounts) but which have not been paid by the Relevant Issuer or the Guarantor (in the case of Covered Bonds issued by ANZNIL) to the relevant Covered Bondholder, Receiptholders and/or Couponholders on the relevant date for payment, provided that no Notice to Pay shall be so served until an Issuer Acceleration Notice has been served by the Bond Trustee on the Relevant Issuer and the Guarantor (in the case of Covered Bonds issued by ANZNIL).

Following the occurrence of a Covered Bond Guarantor Event of Default and the service by the Bond Trustee of a Covered Bond Guarantee Acceleration Notice on the Issuer and the Guarantor and the Covered Bond Guarantor, in respect of the Covered Bonds of each Series which shall have become

immediately due and repayable (or which would have become Due for Payment but for any variation, release or discharge of the Guaranteed Amounts), the Covered Bond Guarantor shall, as principal obligor, pay or procure to be paid to or to the order of the Bond Trustee (for the benefit of itself and the Covered Bondholders) in the manner described in the Bond Trust Deed the Guaranteed Amounts.

Subject to the grace periods specified in Condition 9(b) (*Covered Bond Guarantor Events of Default*), failure by the Covered Bond Guarantor to pay the Guaranteed Amounts when Due for Payment will constitute a Covered Bond Guarantor Event of Default.

Covered Bond Guarantor not obliged to pay additional amounts

All payments of principal and interest (if any) in respect of the Covered Bonds, Receipts and Coupons by or on behalf of the Covered Bond Guarantor will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessment or other charges of whatever nature imposed or levied by or on behalf of New Zealand and/or, where the Relevant Issuer is acting through its branch, the jurisdiction, country or territory in which the branch through which the Relevant Issuer is acting as specified in the relevant Final Terms is located or in each case, any political sub-division thereof, or by any authority therein or thereof having power to tax unless such withholding or deduction is required by law. If any such withholding or deduction is required, the Covered Bond Guarantor shall pay the Guaranteed Amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. The Covered Bond Guarantor shall not be obliged to pay any additional amount to the Bond Trustee or any holder of Covered Bonds, Receipts and/or Coupons in respect of the amount of such withholding or deduction.

See "*Taxation*" for further information.

Guarantor and Covered Bond Guarantor as principal debtor and not merely as surety

The Guarantor and the Covered Bond Guarantor have each agreed that its obligations under the Bond Trust Deed shall be as if it were principal debtor and not merely as surety or guarantor and shall be absolute and (in the case of the Covered Bond Guarantor following service of an Issuer Acceleration Notice and Notice to Pay or a Covered Bond Guarantee Acceleration Notice) unconditional, irrespective of, and unaffected by, any invalidity, irregularity, illegality or unenforceability of, or defect in, any provisions of the Bond Trust Deed or any other Programme Document, or the absence of any action to enforce the same or the waiver, modification or consent by the Bond Trustee, any of the Covered Bondholders, Receiptholders or Couponholders in respect of any provisions of the same or the obtaining of any judgment or decree against an Issuer or the Guarantor, or any action to enforce the same, or any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a guarantor.

Excess Proceeds

Following the occurrence of an Issuer Event of Default and the delivery of an Issuer Acceleration Notice, and Notice to Pay, any Excess Proceeds which are received by the Bond Trustee from an Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or any receiver, liquidator, administrator or other similar official appointed in relation to the Issuer or the Guarantor and are then held by it or under its control, shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the Covered Bond Guarantor for its own account, as soon as practicable, and shall be held by the Covered Bond Guarantor in the GIC Account, and the Excess Proceeds shall thereafter form part of the Security and shall be used by the Covered Bond Guarantor in the same manner as all other moneys from time to time standing to the credit of the GIC Account pursuant to the Security Deed and the Establishment Deed. Any Excess Proceeds received by the Bond Trustee and held by it or under its control shall discharge pro tanto the obligations of the Relevant Issuer and the Guarantor (in the case of Covered Bonds issued by ANZNIL) in respect of the Covered Bonds, Receipts and Coupons and the obligations of the Guarantor in respect of the Guarantee (as applicable and to the extent of the amount so received and subject to restitution of the same if such Excess Proceeds shall be required to be repaid by the Covered Bond Guarantor) (but shall be deemed not to have done so for the purposes of subrogation rights of the Covered Bond Guarantor contemplated by the Covered Bond Guarantee and the Bond Trust Deed). However, the obligations of the Covered Bond Guarantor under the Covered Bond Guarantee are (following service of an Issuer Acceleration Notice and Notice to Pay or, if earlier, service of a Covered Bond Guarantee Acceleration Notice)

unconditional and irrevocable, and the receipt by, or on behalf of, the Bond Trustee of any Excess Proceeds shall not reduce or discharge any such obligations.

By subscribing for Covered Bonds, each Covered Bondholder shall be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the Covered Bond Guarantor in the manner as described above.

For the avoidance of doubt, any payments by the Covered Bond Guarantor to the Covered Bondholders out of the Excess Proceeds shall reduce the Guaranteed Amounts pro tanto.

The Bond Trust Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

Intercompany Loan Agreement

On each Issue Date, the Intercompany Loan Provider will make a Term Advance to the Covered Bond Guarantor in an amount equal to either (i) if a Non-Forward Starting Covered Bond Swap is entered into on the relevant Issue Date, the Principal Amount Outstanding on the Issue Date of each Series or, as applicable, each Tranche of Covered Bonds in the Specified Currency of the relevant Series or Tranche of Covered Bonds or (ii) if a Forward Starting Covered Bond Swap is entered into on the relevant Issue Date, the NZ dollar Equivalent of the Principal Amount Outstanding on the Issue Date of each Series or, as applicable, each Tranche of Covered Bonds, and for a matching term. Each Term Advance will be used by the Covered Bond Guarantor (if not denominated in NZ dollars upon exchange into NZ dollars under the applicable Covered Bond Swap): (A) if a New Housing Loan Portfolio is being acquired in connection with the issue of the related Series or Tranche of Covered Bonds (i) to fund (in whole or in part) the Purchase Price of the New Housing Loan Portfolio from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or (ii) acting on the directions of the Trust Manager, to invest in Substitution Assets in an amount not exceeding the prescribed limit in the Establishment Deed to the extent required to meet the Asset Coverage Test; and thereafter or otherwise the Covered Bond Guarantor may use such proceeds (subject to complying with the Asset Coverage Test): (B) if an existing Series or Tranche or part of an existing Series or Tranche of Covered Bonds is being refinanced by the issue of a further Series or Tranche of Covered Bonds to which the Term Advance relates, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced (after exchange into the currency of the Term Advance(s) being repaid, if necessary); and/or (C) to make a repayment of the Demand Loan, provided that the Calculation Manager has determined the outstanding balance of the Demand Loan by calculating the Asset Coverage Test as at the Intercompany Loan Drawdown Date having taken into account such repayment and the Calculation Manager has confirmed that the Asset Coverage Test will continue to be met after giving effect to such repayment; and/or (D) to make a deposit of all or part of the proceeds into the GIC Account (including, without limitation, to fund the Reserve Fund).

Neither the Relevant Issuer nor the Guarantor (in the case of Covered Bonds issued by ANZNIL) will be relying on repayment of any Term Advance in order to meet its repayment obligations under the Covered Bonds. The Covered Bond Guarantor will pay amounts due in respect of Term Advances in accordance with the relevant Priority of Payments. Prior to the service of a Notice to Pay on the Covered Bond Guarantor, amounts due in respect of each Term Advance will be paid by the Covered Bond Guarantor to, or as directed by, the Intercompany Loan Provider on each Trust Payment Date, subject to paying all higher ranking amounts in the Pre-Acceleration Revenue Priority of Payments or, as applicable, the Pre-Acceleration Principal Priority of Payments. Any failure by the Covered Bond Guarantor to pay any amounts due on the Term Advances will not affect the liability of the Relevant Issuer or the Guarantor (in the case of Covered Bonds issued by ANZNIL) to pay the relevant amount due on the Covered Bonds.

Any amounts owing by the Intercompany Loan Provider (as Issuer or, in the case of the Covered Bonds issued by ANZNIL, as Guarantor of a particular Series or Tranche of Covered Bonds (as the case may be)) to the Covered Bond Guarantor in respect of amounts paid by the Covered Bond Guarantor under the Covered Bond Guarantee in relation to the particular Series or Tranche of Covered Bonds or the purchase of the particular Series or Tranche of Covered Bonds, as applicable, shall be set-off automatically (and without any action being required by the Covered Bond Guarantor, the Trust Manager, the Calculation Manager, the Intercompany Loan Provider or the Security Trustee) against any amounts payable by the Covered Bond Guarantor under the Intercompany Loan Agreement in

relation to the Term Advance corresponding to that Series or Tranche of Covered Bonds. The amount set-off shall be the amount of the relevant payment made by the Covered Bond Guarantor under the Covered Bond Guarantee in relation to the relevant Covered Bonds (or the NZ dollar Equivalent of such amount if the related Term Advance is denominated in NZ dollars and the relevant Covered Bonds are not denominated in NZ dollars) or the Principal Amount Outstanding of any relevant Covered Bonds purchased or otherwise acquired and cancelled by the Covered Bond Guarantor in accordance with Condition 5(i) (*Cancellation*) (or the NZ dollar Equivalent of such amount if the related Term Advance is denominated in NZ dollars and the relevant Covered Bonds are not denominated in NZ dollars), as applicable, which amount shall be applied to reduce amounts payable under the Intercompany Loan Agreement in relation to the Term Advance corresponding to the relevant Covered Bonds and the Demand Loan Agreement in the following order of priority:

- (a) first, to reduce and discharge interest (including accrued interest) due and unpaid on the outstanding principal balance of such Term Advance;
- (b) second, to reduce and discharge the outstanding principal balance of such Term Advance;
- (c) third, to reduce and discharge any other amounts due and payable by the Covered Bond Guarantor to the Intercompany Loan Provider under the Intercompany Loan Agreement; and
- (d) fourth, to reduce and discharge amounts due and payable by the Covered Bond Guarantor to the Demand Loan Provider under the Demand Loan Agreement (see below).

The Intercompany Loan Agreement is governed by New Zealand law.

Demand Loan Agreement

Under the Demand Loan Agreement the Demand Loan Provider has agreed to make available to the Covered Bond Guarantor a NZ dollar revolving credit facility under which the Demand Loan Provider may make Demand Loan Advances to the Covered Bond Guarantor. Each Demand Loan Advance will be denominated in NZ dollars. The interest rate on the Demand Loan will be equal to the 30-day Bank Bill Rate plus a spread to be determined by the Demand Loan Provider. The balance of the Demand Loan will fluctuate over time, as described below.

The proceeds of each Demand Loan Advance may only be used by the Covered Bond Guarantor (a) as consideration (in whole or part) for the acquisition of Housing Loans and the Related Security from the Seller on a Transfer Date where the aggregate of the proceeds of the related Term Advance (if any) made on that date and/or (subject to paragraph (b) of the Pre-Acceleration Principal Priority of Payments) the Available Principal Receipts (if any) are not sufficient to pay the Purchase Price for the relevant New Housing Loan Portfolio; (b) to repay a Term Advance on the date on which the Series of Covered Bonds corresponding to such Term Advance matures; (c) to rectify a failure to meet the Asset Coverage Test; (d) to rectify a breach of the Pre-Maturity Test; (e) to rectify an Interest Rate Shortfall; or (f) to pay to the Seller the Purchase Price of a Further Advance or to reimburse the Seller for funding a Cash Redraw (if on any Trust Payment Date the Available Principal Receipts (if any) are not sufficient to pay to the Seller the Purchase Price of a Further Advance or to reimburse the Seller for funding a Cash Redraw that the Covered Bond Guarantor has agreed may remain in the Housing Loan Portfolio in accordance with the Mortgage Sale Agreement).

The Covered Bond Guarantor shall repay the principal on the Demand Loan in accordance with the applicable Priority of Payments and the terms of the Demand Loan Agreement and the Establishment Deed, using (i) funds in the applicable Trust Accounts; and/or (ii) proceeds from the sale of Substitution Assets and/or Authorised Investments; and/or (iii) proceeds of the sale, pursuant to the Establishment Deed, of Housing Loans and the Related Security to the Seller or to another person subject to the Seller's right of pre-emption; and/or (iv) the proceeds of a Term Advance pursuant to the terms of the Intercompany Loan Agreement (see "*Cashflows*" below).

At any time prior to an Issuer Event of Default and provided the conditions precedent have been satisfied, the Covered Bond Guarantor may re-borrow any amount of the Demand Loan repaid by the Covered Bond Guarantor in accordance with the Demand Loan Agreement and the relevant Priority of Payments. Unless otherwise agreed by the Demand Loan Provider, no further Demand Loan Advances

will be required to be made to the Covered Bond Guarantor under the Demand Loan Facility following an Issuer Event of Default or Covered Bond Guarantor Event of Default.

If a demand for repayment of all or part of the Demand Loan is given, then subject to the applicable Priority of Payments, the principal amount of the Demand Loan shall be repaid on the next Trust Payment Date by an amount equal to the lesser of: (a) the amount requested to be repaid by the Demand Loan Provider; and (b) the maximum amount (as calculated by the Calculation Manager) that will not result in a breach of the Asset Coverage Test after giving effect to such repayment. If on any Trust Payment Date the Asset Coverage Test will be breached after giving effect to a repayment of the Demand Loan, no amount will be repayable on the Demand Loan on such date.

Any amounts owing by the Demand Loan Provider (as Issuer or, in the case of Covered Bonds issued by ANZNIL, as Guarantor of a particular Series or Tranche of Covered Bonds (as the case may be)) to the Covered Bond Guarantor in respect of amounts paid by the Covered Bond Guarantor under the Covered Bond Guarantee in relation to the particular Series or Tranche of Covered Bonds or the purchase of the particular Series or Tranche of Covered Bonds by the Covered Bond Guarantor, as applicable, which are not set-off in accordance with the order of priority contained in paragraphs (a) to (c) of the description of the Intercompany Loan Agreement (set out above) shall be set-off automatically (and without any action being required by the Covered Bond Guarantor, the Trust Manager, the Calculation Manager, the Intercompany Loan Provider or the Security Trustee) against any amounts payable by the Covered Bond Guarantor under the Demand Loan Agreement in the following order of priority:

- (A) *first*, to reduce and discharge interest (including accrued interest) due and unpaid on the Demand Loan;
- (B) *second*, to reduce and discharge the outstanding principal balance of the Demand Loan; and
- (C) *third*, to reduce and discharge any other amounts due and payable by the Covered Bond Guarantor to the Demand Loan Provider under the Demand Loan Agreement.

The Demand Loan Agreement is governed by New Zealand law.

Mortgage Sale Agreement

Sale by the Seller of Housing Loans and Related Security

Housing Loans and the Related Security have been and will be sold to the Covered Bond Guarantor from time to time pursuant to the terms of the Mortgage Sale Agreement entered into on the Programme Date between ANZ New Zealand as Seller, Calculation Manager, Issuer, Guarantor, Servicer and All Moneys Mortgage Beneficiary, ANZNIL, the Covered Bond Guarantor, the Trust Manager and the Security Trustee.

The types of Housing Loans forming part of the Housing Loan Portfolio will vary over time provided that at the time the relevant Housing Loans are sold to the Covered Bond Guarantor, the Housing Loans are Qualifying Housing Loans (as described below) on the relevant Transfer Date. Accordingly, New Housing Loans sold by the Seller to the Covered Bond Guarantor on a Transfer Date may have characteristics that differ from Housing Loans already in the Housing Loan Portfolio as at that date.

Prior to the occurrence of an Issuer Event of Default or a Covered Bond Guarantor Event of Default, the Covered Bond Guarantor will acquire Housing Loans and Related Security from the Seller in the four circumstances described below:

- (a) *first*, in relation to the issue of Covered Bonds from time to time in accordance with the Programme, the proceeds of a Demand Loan Advance and/or a Term Advance (after being swapped into NZ dollars at the applicable Swap Rate if the Term Advance is not denominated in NZ dollars), together with (if applicable) any Available Principal Receipts available for that purpose, may be applied in whole or in part by the Covered Bond Guarantor to acquire Housing Loans and the Related Security from the Seller on the relevant Transfer Date;
- (b) *second*, if at any time prior to the service of an Asset Coverage Test Breach Notice (which has not been revoked) both:

- (i) the amount of Available Principal Receipts available for distribution on the immediately following Trust Payment Date exceeds the amount required to be applied under paragraphs (a) to (d) inclusive of the Pre-Acceleration Principal Priority of Payments; and
- (ii) the Trust Manager considers (having regard to the composition of the Housing Loan Portfolio, and the amount of Substitution Assets and Authorised Investments held by the Covered Bond Guarantor, at that time) that all or part of the Available Principal Receipts remaining after application under paragraphs (a) to (d) inclusive of the Pre-Acceleration Principal Priority of Payments should be utilised to acquire New Housing Loans and the Related Security,

then the Covered Bond Guarantor shall use the Available Principal Receipts to acquire New Housing Loans and Related Security from the Seller on the relevant Transfer Date;

- (c) *third*, the Covered Bond Guarantor is required to ensure that the Adjusted Aggregate Housing Loan Amount is maintained at all times in compliance with the Asset Coverage Test (as determined by the Calculation Manager on each Determination Date). If on any Determination Date the Adjusted Aggregate Housing Loan Amount is less than the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds, the Seller will use all reasonable efforts to offer to sell sufficient New Housing Loans and the Related Security to the Covered Bond Guarantor so the Asset Coverage Test is met on or before the next Determination Date; and
- (d) *fourth*, if the Servicer notifies the Covered Bond Guarantor and the Seller that the Interest Rate Shortfall Test has not been met and the Covered Bond Guarantor and the Security Trustee notify the Servicer and the Seller that further Housing Loans and the Related Security should be sold to the Covered Bond Guarantor to rectify the Interest Rate Shortfall, the Seller will use all reasonable efforts to offer to sell in accordance with the Mortgage Sale Agreement sufficient New Housing Loans and the Related Security to the Covered Bond Guarantor on or before the next succeeding Determination Date to rectify the Interest Rate Shortfall on that Determination Date.

In exchange for the sale of the Housing Loans and the Related Security to the Covered Bond Guarantor, the Seller will receive a cash payment of the Purchase Price and the payment of the Deferred Consideration in accordance with the applicable Priority of Payments.

The Seller and the Covered Bond Guarantor may agree that the Purchase Price for each New Housing Loan Portfolio shall be set-off against any amount payable on the Transfer Date by ANZ New Zealand as Intercompany Loan Provider and/or Demand Loan Provider under the Intercompany Loan Agreement and/or the Demand Loan Agreement.

The Purchase Price for a New Housing Loan Portfolio shall be paid on the applicable Transfer Date.

The Seller will be required to repurchase Housing Loans and the Related Security sold to the Covered Bond Guarantor in the circumstances described below under "Repurchase by the Seller following breach of Representations and Warranties".

Qualifying Housing Loans

The sale of Housing Loans and the Related Security to the Covered Bond Guarantor will be subject to certain conditions being satisfied on the relevant Transfer Date, including that each Housing Loan is a Qualifying Housing Loan. A Qualifying Housing Loan is a Housing Loan that satisfies the following eligibility criteria:

- (a) it is due from a Qualifying Borrower;
- (b) it is repayable in NZ dollars;
- (c) it is fully drawn;
- (d) its term does not exceed 30 years;

- (e) it has a Current Principal Balance no greater than \$2,000,000;
- (f) it is secured by a Mortgage over Property in New Zealand which is a registered first ranking mortgage;
- (g) the Property subject to a Mortgage has erected on it a residential dwelling which is not under construction (excluding renovations permitted by the terms of the Housing Loan);
- (h) it is not 30-days or more in arrears;
- (i) its sale does not contravene or conflict with any applicable law;
- (j) it has been approved and originated by the Seller in accordance with the Servicing Procedures and the Seller has verified the ability of the Borrower to meet his or her payment obligations under the Housing Loan; and
- (k) the Borrower has made at least one interest payment under the Housing Loan.

On each Transfer Date, the Representations and Warranties (described below in "*Representations and Warranties*") will be given by the Seller in respect of the Housing Loans and the Related Security sold by the Seller to the Covered Bond Guarantor on that Transfer Date.

Transfer of Title to the Housing Loans to the Covered Bond Guarantor

Housing Loans will be sold by the Seller to the Covered Bond Guarantor by way of statutory assignment. Notice of the sale will not be initially provided to the Borrowers. Mortgages will be sold by the Seller to the Covered Bond Guarantor by way of equitable assignment.

The completion and delivery of transfers of Mortgages to the Covered Bond Guarantor and the notifications to the relevant Borrowers notifying such Borrowers of the sale of Housing Loans in the Housing Loan Portfolio and the Related Security to the Covered Bond Guarantor and the transfer of custody of the Housing Loan Files to the Covered Bond Guarantor, or the Trust Manager on its behalf, may be completed by the Covered Bond Guarantor, or the Trust Manager on its behalf, after the earliest to occur of the following events ("**Title Perfection Events**"):

- (a) the occurrence of an Issuer Event of Default and the service on the Issuers and the Guarantor of an Issuer Acceleration Notice and the service on the Covered Bond Guarantor of a Notice to Pay unless the Seller has notified the Covered Bond Guarantor that it will accept the offer set out in a Selected Housing Loan Offer Notice within the prescribed time in relation to the Housing Loans and the Related Security specified in the Selected Housing Loan Offer Notice, in which case, the completion and delivery of transfers to the Covered Bond Guarantor and the notifications to the relevant Borrowers and the transfer of custody shall not occur in relation to the Housing Loans and the Related Security as specified; or
- (b) in respect of Selected Housing Loans and the Related Security only, at the request of the Covered Bond Guarantor, or the Trust Manager on its behalf, following the acceptance of an offer to sell the Selected Housing Loans and the Related Security (in accordance with the Programme Documents) to any person who is not the Seller; or
- (c) the Seller and/or the Covered Bond Guarantor being required to perfect legal title to the Housing Loans and/or the Related Security by law or by an order of a court of competent jurisdiction; or
- (d) the Security under the Security Deed or any material part of the Security being in the opinion of the Security Trustee (acting reasonably) in jeopardy and the Security Trustee determining or being directed by the Bond Trustee or, if there are no Covered Bonds outstanding, the Majority Secured Creditors, to take that action to reduce that jeopardy; or
- (e) the termination of ANZ New Zealand's role as Servicer under the Servicing Agreement unless
 - (i) at the relevant date of termination any Substitute Servicer is a member of the ANZ Group or
 - (ii) the Security Trustee otherwise consents (such consent to be given if a Rating

Affirmation Notice has been delivered by the Trust Manager to the Covered Bond Guarantor and the Security Trustee in respect of the termination of ANZ New Zealand's role as Servicer);

- (f) the Seller requesting the perfection of a sale of Housing Loans and the Related Security and transfer of custody of the Housing Loan Files by giving notice in writing to the Covered Bond Guarantor and the Security Trustee;
- (g) the occurrence of an Insolvency Event in relation to the Seller; or
- (h) the Seller's unsecured, unsubordinated, long-term senior debt obligations being downgraded below Baa3 by Moody's or BBB- by Fitch.

The Seller undertakes (to the extent that any of the following is vested in it) to hold all right, title, interest and benefit (both present and future) in and under (A) the Housing Loans in the Housing Loan Portfolio and the Related Security, following the acquisition of such Housing Loans and the Related Security by the Covered Bond Guarantor and (B) any sums that are or may become due in respect thereof, on trust for the Covered Bond Guarantor (excluding from such trust any Housing Loans which have been repurchased by the Seller).

On the Programme Date, the Seller delivered a registrable power of attorney appointing the Covered Bond Guarantor as its attorney to: (I) sign, execute, deliver and submit by way of e-dealing any client authority and instruction form for an e-dealing that conforms with the Land Transfer Act 1952 and is approved by the New Zealand Law Society and the Registrar General of Land (an "**A&I Form**") relating to any Housing Loans in accordance with the Mortgage Sale Agreement; and (II) sign and/or perform all other instruments, assurances, acts, matters and things which in the opinion of ANZ New Zealand and the Covered Bond Guarantor or any person who replaces the Covered Bond Guarantor as trustee of the Trust (as conclusively evidenced by the execution or performance by the Covered Bond Guarantor or that person of any instrument, assurance, act, matter or thing) are or may be necessary, incidental or desirable in relation to the execution, sealing, delivery or submission of an A&I Form or any other step necessary to perfect the Covered Bond Guarantor's legal title to the Housing Loans. The power of attorney will not be exercisable by the Covered Bond Guarantor until the occurrence of a Title Perfection Event. Upon the occurrence of a Title Perfection Event, the Servicer must deliver to or at the written direction of the Covered Bond Guarantor all Housing Loan Files, and the Covered Bond Guarantor must as soon as practicable take all necessary steps to protect the Covered Bond Guarantor's interest in, and title to, the Housing Loans and the Related Security, including: (1) signing, in accordance with the New Zealand Law Society guidelines, the necessary A&I Forms (where necessary under the Seller's Power of Attorney) and submitting by way of e-dealing any transfer or caveat with LINZ; (2) initiating legal proceedings to take possession of the Housing Loan Files that have not been delivered by the Servicer; and (3) the giving of notice of the transfers to the relevant Borrowers, insurers and other interested persons.

The Seller shall indemnify each of the Covered Bond Guarantor and the Security Trustee from and against any and all costs, fees and expenses (including, without limitation, legal fees and expenses and any applicable GST thereon) which may be properly incurred by the Covered Bond Guarantor and/or the Security Trustee by reason of doing any act, matter or thing in order to perfect legal title to the Housing Loans and the Related Security (where entitled to do so as provided above).

Representations and Warranties

Neither the Covered Bond Guarantor, the Trust Manager nor the Security Trustee has made or has caused to be made on its behalf any enquiries, searches or investigations in respect of the Housing Loans and the Related Security to be sold to the Covered Bond Guarantor. Instead, each will rely entirely on the Representations and Warranties to the Covered Bond Guarantor, the Trust Manager and the Security Trustee made by the Seller and contained in the Mortgage Sale Agreement. The Seller makes the following Representations and Warranties to the Covered Bond Guarantor, the Trust Manager and the Security Trustee in relation to each Housing Loan and the Related Security on the relevant Transfer Date:

- (a) At the time the Seller entered into the Housing Loan the Housing Loan and each Related Security complied with all applicable laws.

- (b) The Housing Loan was originated by the Seller in accordance with, in all material respects, its Servicing Procedures in force at the time of the origination of the Housing Loan and the exercise of any discretion by the Seller in making the Housing Loan was consistent with the practice of a Prudent Mortgage Lender.
- (c) Immediately prior to making the Housing Loan, the nature and amount of the Housing Loan and the Related Security and the circumstances of the relevant Borrower and the relevant Property satisfied the Servicing Procedures in all material respects.
- (d) The Servicing Procedures of the Seller are consistent with those of a Prudent Mortgage Lender.
- (e) The terms of the Housing Loan and any Related Security, have not been impaired, waived, altered or modified in any respect, except changes to the terms of the Housing Loan to which a Prudent Mortgage Lender would have agreed, recorded in a written instrument forming part of the mortgage documentation applicable to the Housing Loan.
- (f) The Housing Loan and its Related Security have been made on the terms of, or on terms not materially different from, documents forming part of the standard mortgage documentation of the Seller.
- (g) The Housing Loan, the related Mortgage and any Related Security are enforceable in accordance with their terms against the relevant Borrower or security provider (as the case may be) (subject to laws relating to insolvency and creditors' rights generally).
- (h) The Housing Loan is a Qualifying Housing Loan, satisfying the requirements set out in the Mortgage Sale Agreement except that the Seller makes no representation as to the sanity of any Borrower.
- (i) The Housing Loan was originated in the ordinary course of the residential secured lending activities of the Seller.
- (j) At the time the Seller entered into the Housing Loan, it had not received any notice of the insolvency or bankruptcy of the Borrower or that the Borrower did not have the legal capacity to enter into the Housing Loan.
- (k) The Seller is the sole legal and beneficial owner of the Housing Loan, the related Mortgage and any other Related Security, and no Security Interest exists in relation to its right, title and interests in the Housing Loan, the related Mortgage and any other Related Security, and the Seller has not received notice from any person that claims to have a Security Interest ranking in priority to or equal with the related Mortgage or Related Security (other than Security Interests arising by operation of law).
- (l) To the best of the Seller's knowledge and belief it holds, or it is able to obtain, all documents (whether in paper or electronic form) necessary to enforce the provisions of, and the security created by, the related Mortgage and each Related Security.
- (m) The Seller has complied with its material obligations under the Housing Loan.
- (n) The Housing Loan is (or is a combination of) a fixed interest rate Housing Loan or a variable interest rate Housing Loan. If it is a variable interest rate Housing Loan, the terms of the Housing Loan allow the Seller to change the applicable variable interest rate in accordance with the applicable Housing Loan Conditions.
- (o) Except if the Housing Loan is subject to a fixed rate of interest at any time and, except as may be provided by applicable laws or any binding code or arrangement applicable to banks or other lenders in the business of making retail home loans, the interest payable on the Housing Loan is not subject to any limitation and no consent, additional memoranda or other writing is required from the Borrower to give effect to a change in the interest rate payable on the relevant Housing Loan and any change will be effective on notice being given to the Borrower in accordance with the Housing Loan Conditions.

- (p) Prior to making the Housing Loan, the Seller instructed, or required to be instructed on its behalf, solicitors or conveyancing practitioners to carry out, in relation to the relevant Property, all investigations, searches and other actions and enquiries which a Prudent Mortgage Lender or its solicitors or conveyancing practitioners normally would have made when lending to an individual an amount equal to the amount advanced on the security of residential property in New Zealand, and received a solicitor's certificate which, either initially or after further investigation, revealed no material matter which would have caused a Prudent Mortgage Lender to decline the Housing Loan, having regard to the Servicing Procedures.
- (q) In relation to a Housing Loan prior to making the Housing Loan, and where required under the relevant Servicing Procedures the relevant Property was valued in accordance with the Servicing Procedures and, where the Servicing Procedures required a full registered valuation, by an independent registered valuer appointed by the Seller or as otherwise permitted under the Servicing Procedures, and the results of each such valuation would be acceptable to a Prudent Mortgage Lender.
- (r) The Seller has not agreed to waive any of its rights against any valuer, solicitor, conveyancing practitioner or other professional who has provided information, carried out work or given advice in connection with the Housing Loan or its Related Security.
- (s) There is no obligation on the Seller under the Housing Loan to make any further financial accommodation available to the relevant Borrower.
- (t) Each Housing Loan and its Related Security complies with the relevant requirements for credit contracts and consumer credit contracts in the Credit Contracts Act 1981 and the Credit Contracts and Consumer Finance Act 2003 ("CCCFA") (to the extent those statutes are applicable to the Housing Loan and its Related Security) (or to the extent that it does not, the non-compliance will not affect the enforceability of the terms of the Housing Loan or the Related Security).
- (u) The Seller has not been notified of any application to a court in respect of any Housing Loan or other document included in the Housing Loan Files by the Commerce Commission or any Borrower or guarantor under the CCCFA to reopen a credit contract in accordance with section 125 of the CCCFA.
- (v) So far as the Seller is aware, the relevant Borrower is not in material breach of the terms of the Housing Loan.
- (w) The Seller has taken such steps as a Prudent Mortgage Lender would take to ensure that, as at the date of completion of the Housing Loan, the relevant Property was insured under a policy with an insurance company against fire and other commercial risks usually covered by a Prudent Mortgage Lender for an amount not less than the full reinstatement value of the Property at or around the time that the Housing Loan was made.
- (x) The relevant Property subject to a Mortgage is a residential property situated in New Zealand.
- (y) In respect of each Property subject to a Mortgage, the Seller has received a solicitor's certificate stating that all reasonable steps will be taken to register the Mortgage and provide a valid and enforceable security as required by the Seller in its instructions to the solicitor.
- (z) Since the origination of the Housing Loan, full and proper accounts, books and records have been kept showing clearly all material transactions, payments, receipts, notices and proceedings relating to the Housing Loan and its Related Security and all such accounts, books and records are up to date, accurate in all material respects and have been kept to standards acceptable to a Prudent Mortgage Lender and are in the possession of the Seller.
- (aa) So far as the Seller is aware, no fraud has been perpetrated by the relevant Borrower or other person (whether or not an agent or staff member of the Seller, or otherwise) in or in relation to or in connection with the origination or completion of the Housing Loan or its Related Security and none of the documents, reports, applications, forms and deeds given, made, drawn up or executed in relation to such origination or completion has been given, made, drawn up or executed in a fraudulent manner.

- (bb) The Seller has not received written notice of any litigation or claim calling into question in any material way the title of the Seller to the Housing Loan and/or the Related Security.
- (cc) The Seller is lawfully entitled to assign the Housing Loan, the related Mortgage and any other Related Security, upon the terms and conditions of the Mortgage Sale Agreement and no consent to the sale and assignment of the Housing Loan, the related Mortgage and any other Related Security, or notice of that sale and assignment is required to be given by or to any person including, without limitation, any Borrower and such sale and assignment of the Housing Loan, the related Mortgage and any other Related Security is permitted under the Housing Loan Conditions and the terms of the related Mortgage and any other Related Security.
- (dd) Upon the acceptance of the offer contained in a New Housing Loan Portfolio Notice, beneficial ownership of the Housing Loan, the related Mortgage and any other Related Security, will vest in the Covered Bond Guarantor free and clear of all Security Interests (other than Security Interests arising by operation of law).
- (ee) Neither the entry by the Seller into the Mortgage Sale Agreement nor the sale of the rights, title, interests and benefits in the Housing Loans and the Related Security contemplated by the Mortgage Sale Agreement will have a material adverse effect on any Housing Loan or its Related Security.
- (ff) All formal approvals, consents and other steps necessary to permit the sale of the Housing Loan and the Related Security under the Mortgage Sale Agreement have been obtained or taken.
- (gg) The Housing Loan Conditions preserve the Seller's ability to appropriate moneys paid into an account by a Borrower in such way as the Seller determines.

All Moneys Mortgage Trust

The Mortgage in respect of a Housing Loan in the Housing Loan Portfolio may constitute an "all money mortgage" in that such Mortgage purports to secure the repayment of indebtedness which a Borrower owes, or may owe, to the Seller, as applicable, from time to time that is not assigned to the Covered Bond Guarantor (such as business loans) ("**Associated Debt**") as well as securing the repayment of the Housing Loan (each, an "**All Moneys Mortgage**"). Pursuant to a trust to be established on the date that an All Moneys Mortgage is assigned by the Seller to the Covered Bond Guarantor (each such trust, an "**All Moneys Mortgage Trust**"), the Covered Bond Guarantor will hold the beneficial interest in such All Moneys Mortgage and the proceeds of enforcement of such All Moneys Mortgage on trust for the benefit of itself and the Seller. Each of the Covered Bond Guarantor and the Seller, as applicable, will have an interest in the trust property, but in the event that enforcement proceedings are instituted against a Borrower under the terms of the All Moneys Mortgage, any proceeds which are available to be distributed will be distributed under the terms of the All Moneys Mortgage Trust, first, to meet all costs, charges and expenses of the All Moneys Mortgage Trustee (being the Covered Bond Guarantor), the Trust Manager or the relevant mortgagee or any receiver, receiver and manager or attorney incurred in the enforcement of the Housing Loan and the Related Security; second, to the Covered Bond Guarantor, the amount required to pay, in full, the Current Principal Balance of each related Housing Loan in the Housing Loan Portfolio together with accrued interest and arrears of interest and expenses payable, the payment of which is secured by the All Moneys Mortgage; third, following the repayment in full of the amounts referred to above, to the Seller the amount required to pay, in full, all amounts due and payable under the related Associated Debt (including accrued interest and any other amounts due in respect thereof), the payment of which is secured by the All Moneys Mortgage; and fourth, as to any excess, to the Borrower in respect of the relevant All Moneys Mortgage. An All Moneys Mortgage may be enforceable on the occurrence of a default by the relevant Borrower under the terms of the Housing Loan or under the terms of the Associated Debt.

If the Covered Bond Guarantor or, following the service of a Covered Bond Guarantee Acceleration Notice, the Security Trustee receives notice from the Seller that a Mortgage in the Housing Loan Portfolio is an All Moneys Mortgage that secures indebtedness of a Borrower that is owing to the Seller, the Covered Bond Guarantor or the Security Trustee (as the case may be) will not dispose of, or

create an interest in, the Mortgage or the Housing Loan secured by the Mortgage, unless the Covered Bond Guarantor or the Security Trustee (as the case may be) notifies the relevant third party receiving that interest in the Mortgage, or the Housing Loan secured by the Mortgage, of the All Moneys Mortgage Trust and the terms of any agreement with respect to the disposal of, or the creation of the interest in, the Mortgage or the Housing Loan (except where the agreement is with the Seller) includes a requirement on the relevant acquirer to hold the Mortgage upon trust for itself and the Seller (and any subsequent purchaser of the Associated Debt) on the same terms as the All Moneys Mortgage Trust and undertakings by the relevant acquirer in favour of, and enforceable by, the Seller and any third party purchaser of any Associated Debt unless expressly agreed otherwise by the Seller.

Neither the Covered Bond Guarantor nor the Security Trustee will grant, provide or agree to any release, discharge, surrender, waiver or variation of that Related Security without the prior written consent of the Seller. If the Seller reasonably believes that the Covered Bond Guarantor or the Security Trustee intends to dispose of, or create an interest in, any Related Security which also secures, or relates to, Associated Debt the Seller may lodge a caveat to protect its interest in the relevant Associated Debt.

Repurchase by the Seller following breach of Representations and Warranties

If the Seller receives a Housing Loan Repurchase Notice from the Covered Bond Guarantor identifying a Housing Loan in the Housing Loan Portfolio which did not, as at any date on which such Representation and Warranty was deemed to be given, materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement, then the Covered Bond Guarantor will be required to sell and the Seller will be required to repurchase any such Housing Loan and the Related Security, unless the Related Security also secures another Housing Loan in the Housing Loan Portfolio that is not also subject to repurchase, for the Repurchase Price payable at the Repurchase Date.

Product Switches, Further Advances and Cash Redraws

A Housing Loan in the Housing Loan Portfolio will be subject to a Product Switch when the Seller agrees to a variation in the Housing Loan Conditions applicable to a Borrower's Housing Loan which means that the Housing Loan would no longer be a Qualifying Housing Loan and/or moving a Borrower to an alternative mortgage product, including a change in Product Type.

If the Seller agrees to a Product Switch in relation to a Housing Loan in the Housing Loan Portfolio, the Covered Bond Guarantor shall be required to sell and the Seller shall be required to repurchase that Housing Loan and (if applicable) the Related Security on the Repurchase Date, being (except to the extent that the Seller and the Covered Bond Guarantor, or the Trust Manager on its behalf, agree otherwise) the next Trust Payment Date to occur following expiry of period of five days following the date of service by the Seller of a Seller Housing Loan Repurchase Notice on the Covered Bond Guarantor or at the Seller's earlier election, unless:

- (a) the Product Switch is a change to a New Product Type which at that time has been approved for acceptance by the Covered Bond Guarantor or the Trust Manager on its behalf; or
- (b) the Seller has obtained the written agreement of the Covered Bond Guarantor, or the Trust Manager on its behalf, that the Housing Loan may remain in the Housing Loan Portfolio.

The Covered Bond Guarantor is under no obligation whatsoever to agree that a Housing Loan to which an application for or an offer of a Product Switch relates may remain in the Housing Loan Portfolio, and any such decision shall be made at the Covered Bond Guarantor's absolute discretion, provided that in no circumstances shall the Covered Bond Guarantor agree that a Housing Loan to which an application for or an offer of a Product Switch relates may remain in the Housing Loan Portfolio if the Housing Loan would not be a Qualifying Housing Loan immediately after the Product Switch occurs. Any Housing Loan subject to a Product Switch repurchased by the Seller shall be repurchased at the Repurchase Price payable as at the Repurchase Date.

A Housing Loan in the Housing Loan Portfolio will be subject to a Further Advance if the Seller makes any advance of further money to the relevant Borrower following the making of the initial advances of money in respect of such Housing Loan which is secured by the same Mortgage but does not include any Cash Redraw. A Housing Loan in the Housing Loan Portfolio will be subject to a Cash Redraw if

the Seller re-advances to the relevant Borrower some or all of the Overpayments that the Borrower has made under the Housing Loan.

As part of the sale of each New Housing Loan Portfolio, the Seller agrees to transfer to the Covered Bond Guarantor all right, title, interest or benefit of the Seller in and to the relevant New Housing Loan Portfolio that arises or is acquired by the Seller after the relevant Transfer Date (including, without limitation, each Further Advance and Cash Redraw), such right, title, interest or benefit to vest immediately upon such right, title, interest or benefit arising or being acquired and without any further act or document being required.

If the Seller makes a Further Advance or a Cash Redraw in relation to a Housing Loan in the Housing Loan Portfolio the Covered Bond Guarantor is entitled under the Mortgage Sale Agreement to request the Seller to repurchase the Housing Loan related to the Further Advance or Cash Redraw (as the case may be).

The Covered Bond Guarantor is under no obligation whatsoever to pay to the Seller the Purchase Price of a Further Advance or to reimburse the Seller for funding a Cash Redraw, and any such decision shall be made at the Covered Bond Guarantor's absolute discretion, provided that in no circumstances shall the Covered Bond Guarantor agree to pay to the Seller the Purchase Price of a Further Advance or to reimburse the Seller for funding a Cash Redraw if: (i) the Housing Loan would not be a Qualifying Housing Loan immediately after the Further Advance or Cash Redraw is made; or (ii) on the Determination Date following the date on which the Further Advance or Cash Redraw is made it is determined by the Trust Manager that either there will be insufficient Available Principal Receipts that are able to be applied for that purpose on the next Trust Payment Date in accordance with the Pre Acceleration Principal Priority of Payments or a Reimbursement Demand Loan Advance will not be made by the Demand Loan Provider for that purpose, in respect of that request, for whatever reason. The Covered Bond Guarantor, or the Trust Manager on its behalf, shall notify the Seller on or before the relevant Trust Payment Date as to whether the Covered Bond Guarantor has agreed to pay to the Seller the Purchase Price of a Further Advance or to reimburse the Seller for funding the Cash Redraw.

If the Covered Bond Guarantor, or the Trust Manager on its behalf, notifies the Seller that it has determined not to pay the Seller the Purchase Price of a Further Advance or to reimburse the Seller for funding a Cash Redraw, then the Seller must serve a Seller Housing Loan Repurchase Notice on the Covered Bond Guarantor. The Covered Bond Guarantor shall be required to sell and the Seller shall be required to repurchase the relevant Housing Loan and (if applicable) the Related Security on the relevant Repurchase Date in accordance with the Mortgage Sale Agreement. Any Housing Loan repurchased by the Seller pursuant to these provisions shall be repurchased at the Repurchase Price of the Housing Loan payable as at the Repurchase Date less the Further Advance or the Cash Redraw (as the case may be).

Seller remains responsible

The Seller will be solely responsible for funding a Further Advance and/or a Cash Redraw to a Borrower in respect of any Housing Loan in the Housing Loan Portfolio and the Covered Bond Guarantor is not required to make or fund any Further Advance or Cash Redraw unless it expressly agrees to do so in accordance with the Mortgage Sale Agreement.

Defaulted Housing Loans

If a Housing Loan becomes a Defaulted Housing Loan, then that Defaulted Housing Loan will be attributed a zero value in the calculation of the Asset Coverage Test and the Amortisation Test on the relevant Determination Date.

General ability to repurchase

The Seller may, at any time prior to the occurrence of an Issuer Event of Default, by serving a Seller Housing Loan Repurchase Notice on the Covered Bond Guarantor (copied to the Trust Manager), offer to repurchase a Housing Loan and its Related Security (unless the Related Security also secures another Housing Loan in the Housing Loan Portfolio that is not also subject to the offer contained in the Seller Housing Loan Repurchase Notice) from the Covered Bond Guarantor for the Repurchase Price of the Housing Loan payable as at the Repurchase Date. The Covered Bond Guarantor shall be under no

obligation whatsoever to accept such an offer. In no circumstances shall the Covered Bond Guarantor (or the Trust Manager on its behalf) accept any such offer unless the Calculation Manager has first confirmed that, after giving effect to the sale of the Housing Loan and Related Security, the Asset Coverage Test will be met.

Timing of repurchase and payment of repurchase price

A repurchase of the right, title and interest in a Housing Loan and Related Security in the circumstances described under "Repurchase by the Seller following breach of Representations and Warranties", "Product Switches, Further Advances and Cash Redraws" and "General ability to repurchase" will take place on a date agreed by the Seller and the Covered Bond Guarantor, or the Trust Manager on its behalf, or on the next Trust Payment Date to occur following expiry of a period of five days following the date of the service by the Seller of a Seller Housing Loan Repurchase Notice or the date of the service by the Covered Bond Guarantor of the Housing Loan Repurchase Notice (as applicable), whereupon the Seller shall pay to the Covered Bond Guarantor an amount equal to the Repurchase Price for such Housing Loan or Housing Loans.

Right of pre-emption

Under the terms of the Mortgage Sale Agreement, the Seller will have a right of pre-emption in respect of any sale, in whole or in part, of Selected Housing Loans and the Related Security. The Covered Bond Guarantor may be required to sell Selected Housing Loans and the Related Security in the circumstances described in "*Establishment Deed – Sale of Selected Housing Loans and the Related Security if the Pre-Maturity Test is breached*", "*Establishment Deed—Sale of Selected Housing Loans following the Demand Loan Provider making demand that the Demand Loan be repaid*", "*Establishment Deed—Sale of Selected Housing Loans and the Related Security following service of an Asset Coverage Test Breach Notice*" and "*Establishment Deed – Sale of Selected Housing Loans and the Related Security following service of a Notice to Pay*" below.

In connection with the sale of Selected Housing Loans and Related Security, the Covered Bond Guarantor will serve on the Seller a Selected Housing Loan Offer Notice offering to sell those Selected Housing Loans and the Related Security for the best price reasonably available, but in any event: (a) following the service of an Asset Coverage Test Breach Notice (but prior to the service of a Notice to Pay), for an amount not less than the Current Principal Balance of the Selected Housing Loans plus the arrears of interest and accrued interest thereon; and (b) following a breach of the Pre-Maturity Test or service of a Notice to Pay on the Covered Bond Guarantor, for an amount not less than the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds. If the Seller accepts the Covered Bond Guarantor's offer to sell the relevant Selected Housing Loans and the Related Security in accordance with the foregoing, the Seller shall, within ten Local Business Days of service of the Selected Housing Loan Offer Notice on the Seller, countersign and return to the Covered Bond Guarantor the relevant Selected Housing Loan Offer Notice, provided that if an Issuer Event of Default has occurred but no liquidator, statutory manager, receiver, receiver and manager or administrator has been appointed to the Seller, the Seller's right to accept the offer (and therefore exercise its right of pre-emption) will be conditional upon the delivery within such ten Local Business Day period of a solvency certificate in a form acceptable to the Covered Bond Guarantor (or the Trust Manager on its behalf) and the Security Trustee (each acting reasonably). Upon receipt by the Covered Bond Guarantor (or the Trust Manager on its behalf) of a countersigned Selected Housing Loan Offer Notice, the Seller will repurchase from the Covered Bond Guarantor and the Covered Bond Guarantor shall transfer to the Seller free from the Security created by the Security Deed: (a) the relevant Selected Housing Loans referred to in the relevant Selected Housing Loan Offer Notice; and (b) unless the Related Security also secures another Housing Loan in the Housing Loan Portfolio that is not also subject to the offer contained in the Selected Housing Loan Offer Notice, the Related Security. Completion of such repurchase shall take place on such date as the Covered Bond Guarantor (or the Trust Manager on its behalf) and the Seller may agree (provided that such date shall not be later than the earlier to occur of the date which is (i) ten Local Business Days after receipt by the Covered Bond Guarantor (or the Trust Manager on its behalf) of the Selected Housing Loan Offer Notice countersigned by the Seller or (ii) the Final Maturity Date of the Earliest Maturing Covered Bonds), when the Seller shall pay to the GIC Account (or as the Covered Bond Guarantor (or the Trust Manager on its behalf) shall direct) an amount in cash equal to the repurchase price specified in the relevant Selected Housing Loan Offer Notice.

If the Seller rejects the Covered Bond Guarantor's offer or fails to accept it in accordance with the foregoing, the Covered Bond Guarantor will offer to sell the Selected Housing Loans and the Related Security to other Purchasers (as described under "*Establishment Deed – Method of Sale of Selected Housing Loans*", below).

For the purposes hereof:

Adjusted Required Redemption Amount means in relation to a Series of Covered Bonds:

- (A) the NZ dollar Equivalent of the Required Redemption Amount; plus or minus
- (B) the NZ dollar Equivalent of any swap termination amounts payable under the Covered Bond Swaps corresponding to the Series to or by the Covered Bond Guarantor; minus
- (C) (where applicable) amounts standing to the credit of (I) the Pre-Maturity Ledger, (II) the GIC Account and (III) the principal balance of any Substitution Assets and Authorised Investments (excluding all amounts to be applied on the next following Trust Payment Date to repay higher ranking amounts in the relevant Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds); plus or minus
- (D) the NZ dollar Equivalent of any swap termination amounts payable to or by the Covered Bond Guarantor under the Interest Rate Swap.

The Mortgage Sale Agreement is governed by New Zealand law.

Servicing Agreement

Pursuant to the terms of the Servicing Agreement entered into on the Programme Date between the Covered Bond Guarantor, ANZ New Zealand as Servicer and as Seller, the Trust Manager and the Security Trustee, the Servicer has agreed to administer and service the Housing Loans in the Housing Loan Portfolio and the Related Security on behalf of the Covered Bond Guarantor and to provide certain other administration and management services.

The Servicer will be required to administer and service the Housing Loans in the Housing Loan Portfolio and the Related Security in accordance with the Servicing Procedures.

Subject to the Housing Loan Conditions, the Mortgage Sale Agreement and the Servicing Agreement, the Servicer has the full power, authority and the right to do or cause to be done any and all things which it reasonably considers necessary, convenient or incidental to the administration of the Housing Loans in the Housing Loan Portfolio and the Related Security.

Undertakings of the Servicer

Pursuant to the terms of the Servicing Agreement, the Servicer has covenanted with and undertaken to the Covered Bond Guarantor (for itself and as All Moneys Mortgage Trustee), the Trust Manager and the Security Trustee that, without prejudice to any of its specific obligations under the Servicing Agreement, it will:

- (a) administer and service the Housing Loans in the Housing Loan Portfolio and the Related Security in accordance with the Servicing Procedures;
- (b) provide the Services in such manner and with the same level of skill, care and diligence as would a Prudent Mortgage Lender;
- (c) maintain all authorisations, licences, permits, approvals and other registrations as may be required under any applicable legislation to act as servicer of the Housing Loans in the Housing Loan Portfolio and the Related Security;
- (d) prepare and collate all reasonably necessary performance statistics of the Housing Loans in the Housing Loan Portfolio and Related Security;

- (e) provide to the Covered Bond Guarantor and the Trust Manager promptly from time to time such information, documents, records, reports or other information relating to the Housing Loans in the Housing Loan Portfolio and the Related Security or the operations of the Servicer as may be reasonably requested by either of them;
- (f) maintain a loan account in respect of each Housing Loan in the Housing Loan Portfolio and give all notices, documents or statement required to be given under the Servicing Procedures to the relevant Borrower;
- (g) not, without the consent of the Security Trustee, consent to the creation or existence of a Security Interest in any Housing Loan in the Housing Loan Portfolio or the Related Security, except either as permitted by the Servicing Procedures or as expressly provided for or permitted by the Programme Documents;
- (h) electronically identify each Housing Loan in the Housing Loan Portfolio and the Related Security in its electronic database in order to identify the Housing Loan Scheduled Payments and other relevant cashflows in respect of each Housing Loan in the Housing Loan Portfolio and the Related Security;
- (i) except as required by law or required or permitted by, the Servicing Procedures and the Housing Loan Conditions, not without the consent of the Covered Bond Guarantor release the Borrower from any amount owing in respect of a Housing Loan in the Housing Loan Portfolio or otherwise vary or discharge any such Housing Loan or the Related Security;
- (j) not grant any extension of the maturity of a Housing Loan in the Housing Loan Portfolio or allow any reduced payment that would result in such extension except:
 - (i) as required or permitted by the Servicing Procedures and the Housing Loan Conditions;
 - (ii) as approved by the Covered Bond Guarantor (as directed by the Trust Manager) and the relevant Mortgage Insurer (if applicable); or
 - (iii) as required by applicable law and any regulatory undertakings binding on the Servicer;
- (k) make all payments required to be made by it pursuant to the Servicing Agreement on the due date for payment thereof in NZ dollars (or as otherwise required under the Programme Documents) in immediately available funds for value on such day without set-off (including, without limitation, any fees owed to it) or counterclaim, but subject to any deductions required by law; and
- (l) forthwith upon becoming aware of any event which may reasonably give rise to an obligation of the Seller to repurchase any Housing Loan pursuant to the Mortgage Sale Agreement, notify the Covered Bond Guarantor in writing of such event.

Interest Rate Shortfall Test

The Servicer shall, if the Interest Rate Swap is not in effect in accordance with its terms, determine on each Determination Date, having regard to:

- (a) the fixed interest rate and the variable interest rate and any other discretionary rate or margin in respect of the Housing Loans in the Housing Loan Portfolio which the Servicer proposes to set under the Servicing Agreement for the next succeeding Trust Payment Period (the "**relevant Trust Payment Period**"); and
- (b) the other resources available to the Covered Bond Guarantor, including the Covered Bond Swap Agreements (if any) and the Reserve Fund (as advised by the Covered Bond Guarantor, or the Trust Manager on its behalf),

whether the Covered Bond Guarantor would receive an amount of income during the relevant Trust Payment Period which, when aggregated with the funds otherwise available to the Covered Bond Guarantor, is less than the amount which is the aggregate of (i) the amount of interest which would be payable (or provisioned to be paid) by or on behalf of the Covered Bond Guarantor under the

Intercompany Loan Agreement (or, if a Notice to Pay has been served on the Covered Bond Guarantor, the Covered Bond Guarantee), and the Demand Loan Agreement on the Trust Payment Date falling at the end of the relevant Trust Payment Period, and the relevant amounts payable (or provisioned to be paid) to the Covered Bond Swap Providers under the Covered Bond Swap Agreements in respect of all Covered Bonds on the Trust Payment Date falling at the end of the relevant Trust Payment Period; and (ii) the other expenses payable (or provisioned to be paid) by the Covered Bond Guarantor on the Trust Payment Date falling at the end of the relevant Trust Payment Period ranking in priority thereto in accordance with the relevant Priority of Payments applicable prior to a Covered Bond Guarantor Event of Default (the "**Interest Rate Shortfall Test**").

If the Servicer determines that the Interest Rate Shortfall Test will not be met, it will give written notice to the Covered Bond Guarantor and the Seller (copied to the Trust Manager and the Security Trustee), within five Local Business Days of the relevant Determination Date, of the amount of the Interest Rate Shortfall and the fixed interest rate and the variable interest rate and the other discretionary rates or margins which would, in the Servicer's opinion, need to be set in order for no shortfall to arise, and the Interest Rate Shortfall Test to be met on the next succeeding Determination Date, having regard to the date(s) on which the changes to the fixed interest rate and the variable interest rate and the other discretionary rates or margins would take effect, following which (A) (subject to the Servicing Agreement and the Mortgage Sale Agreement), the Servicer shall set the fixed interest rate and the variable interest rate (as the case may be) and/or other discretionary rates or margins applicable to Housing Loans in the Housing Loan Portfolio at such levels; and/or (B) the Covered Bond Guarantor or the Security Trustee may notify the Servicer and the Seller that, having regard to the obligations of the Covered Bond Guarantor and the amount of the Interest Rate Shortfall, further Housing Loans and the Related Security should be sold by the Seller to the Covered Bond Guarantor pursuant to the Mortgage Sale Agreement to rectify the Interest Rate Shortfall, in which case, the Seller will use all reasonable efforts to offer to sell in accordance with the Mortgage Sale Agreement sufficient New Housing Loans and the Related Security to the Covered Bond Guarantor on or before the next succeeding Determination Date to rectify the Interest Rate Shortfall on that Determination Date.

Yield Shortfall Test

The Servicer shall, if at any time following an Issuer Event of Default (and for so long as such Issuer Event of Default continues unremedied) or the service of an Asset Coverage Test Breach Notice which has not been revoked, the Interest Rate Swap is not in effect in accordance with its terms, determine on each Determination Date, having regard to the aggregate of:

- (a) the fixed interest rate and the variable interest rate (as the case may be) and any other discretionary rate or margin, in respect of the Housing Loans in the Housing Loan Portfolio which the Servicer proposes to set under the Servicing Agreement for the relevant Trust Payment Period; and
- (b) the resources available to the Covered Bond Guarantor under the Covered Bond Swap Agreements (if any),

whether the Covered Bond Guarantor would receive an aggregate amount of interest from the Housing Loans in the Housing Loan Portfolio and the amounts under the Swap Agreements during the relevant Trust Payment Period which would give an annual yield that is sufficient to enable the Covered Bond Guarantor to make the payments and provisions in items (a)-(e) (inclusive) of the Guarantee Priority of Payments in full on the next 12 Trust Payment Dates to occur following the end of the Collection Period commencing immediately prior to the Determination Date (the "**Yield Shortfall Test**").

If the Servicer determines that the Yield Shortfall Test will not be met, it will give written notice to the Covered Bond Guarantor and the Security Trustee, within five Local Business Days of the relevant Determination Date, of the amount of the yield shortfall and the fixed interest rate and the variable interest rate and the other discretionary rates or margins in respect of the Housing Loans in the Housing Loan Portfolio which would, in the Servicer's opinion, need to be set in order for no shortfall to arise, and the Yield Shortfall Test to be met, having regard to the date(s) on which the changes to the fixed interest rate and the variable interest rate and the other discretionary rates or margins would take effect, and at all times acting in accordance with the standards of a Prudent Mortgage Lender. If the Covered Bond Guarantor or the Security Trustee notifies the Servicer that, having regard to the obligations of the Covered Bond Guarantor, the fixed interest rate and the variable interest rate and/or the other

discretionary rates or margins should be increased, the Servicer will take all steps which are necessary and are in accordance with the standards and practices of a Prudent Mortgage Lender to increase the fixed interest rate and the variable interest rate and/or any other discretionary rates or margins, including giving any notice which is required in accordance with the Servicing Agreement and/or the Housing Loan Conditions.

Remuneration

The Servicer is entitled to an administration fee for the provision of the Services, which shall be agreed in writing between the Covered Bond Guarantor (or the Trust Manager on its behalf), the Security Trustee and the Servicer. The Covered Bond Guarantor will on each Trust Payment Date, subject to the applicable Priority of Payments as further consideration for the Services supplied to it by the Servicer under the Servicing Agreement reimburse the Servicer for all out-of-pocket costs, expenses and charges properly incurred by the Servicer in the performance of the Services, including any such costs, expenses or charges not reimbursed to the Servicer on any previous Trust Payment Date.

Collections

The Servicer acts as collecting agent for the Covered Bond Guarantor in respect of all payments in respect of the Housing Loans in the Housing Loan Portfolio (including, without limitation, a Housing Loan Scheduled Payment). If the Servicer receives, during a Collection Period, any money whatsoever arising from the Housing Loans in the Housing Loan Portfolio and the Related Security which money belongs to the Covered Bond Guarantor and such money is to be paid to the GIC Account pursuant to the Servicing Agreement or any of the other Programme Documents or otherwise, the Servicer shall hold such money on trust for the Covered Bond Guarantor and shall ensure that all such moneys are capable of being readily identified. All such amounts described above received by the Servicer during a Collection Period shall be credited to the GIC Account either on the Trust Payment Date immediately following the end of that Collection Period (for so long as ANZ New Zealand has short-term credit ratings of no lower than P-1 from Moody's and no lower than F1 from Fitch and a long-term credit rating of no lower than A from Fitch) or, in any other case, within two Local Business Days of receipt.

ANZ New Zealand shall, if it credits money received during a Collection Period to the GIC Account in accordance with the Servicing Agreement, on the Trust Payment Date immediately following the end of that Collection Period, credit an additional amount to the GIC Account calculated as interest on the amount of that money for the period during which it was held by ANZ New Zealand. Any such interest is to be calculated on the Determination Date immediately following the end of the Collection Period by ANZ New Zealand in its absolute discretion on the daily balance of the amount of money for the period during which it was held by ANZ New Zealand and at a rate determined on the first day of that Collection Period as the rate equal to the applicable 30-day Bank Bill Rate determined by ANZ New Zealand in its sole discretion.

Removal or resignation of the Servicer

The Covered Bond Guarantor, or the Trust Manager on its behalf (with the consent of the Security Trustee), or the Security Trustee may (acting on the directions of (if there are Covered Bonds outstanding) the Bond Trustee or (if there are no Covered Bonds outstanding) the Majority Secured Creditors), upon written notice to the Servicer, terminate the appointment of the Servicer if any of the following events (each a "**Servicer Termination Event**") occurs:

- (a) the Servicer fails to remit, or pay, any amount due under the Programme Documents within seven Local Business Days of receipt of a notice from either the Covered Bond Guarantor or the Trust Manager to do so;
- (b) the Servicer fails to prepare and submit to the Covered Bond Guarantor or the Trust Manager in a timely and accurate fashion any information so required under the Programme Documents which the Security Trustee considers (acting on the directions of (if there are Covered Bonds outstanding) the Bond Trustee or (if there are no Covered Bonds outstanding) the Majority Secured Creditors) is materially prejudicial to the Covered Bondholders and, if capable of remedy, is not remedied within 20 Local Business Days after notice delivered to the Servicer by the Covered Bond Guarantor or the Trust Manager;

- (c) an Insolvency Event occurs in respect of the Servicer;
- (d) the Servicer fails to observe or perform any term, covenant, condition or obligation provided for in the Programme Documents (other than those referred to in paragraphs (a) and (b) above) which the Security Trustee considers (acting on the directions of (if there are Covered Bonds outstanding) the Bond Trustee or (if there are no Covered Bonds outstanding) the Majority Secured Creditors) is materially prejudicial to the Covered Bondholders and continues unremedied for 20 Local Business Days after notice delivered to the Servicer by the Covered Bond Guarantor or the Trust Manager (or such longer period as may be agreed between the Servicer and the Covered Bond Guarantor); or
- (e) the Servicer's unsecured, unsubordinated, long-term senior debt obligations have been downgraded below Baa3 by Moody's or BBB- by Fitch.

Any termination of the appointment of the Servicer (and the appointment of a Substitute Servicer as described below) is conditional upon the Trust Manager having delivered a Rating Affirmation Notice to the Covered Bond Guarantor, the Seller, the Servicer and the Substitute Servicer in respect of such termination of the appointment of the Servicer and appointment of the Substitute Servicer.

In addition, subject to the fulfilment of a number of conditions, at any time including, without limitation, that a Substitute Servicer has been appointed, the Servicer may resign at any time by giving not less than 12 months' notice to the Covered Bond Guarantor, the Trust Manager, the Security Trustee and the All Moneys Mortgage Beneficiaries provided that:

- (a) each of the Covered Bond Guarantor (or the Trust Manager on its behalf), the Seller and the Security Trustee consents in writing to such resignation (such consent not to be unreasonably withheld or delayed);
- (b) a Substitute Servicer shall have been appointed and, among other things, such Substitute Servicer has entered into an agreement in accordance with the Servicing Agreement; and
- (c) the rights of the Covered Bond Guarantor under such agreement are subject to a Security Interest in favour of the Security Trustee on terms satisfactory to the Security Trustee.

Any Substitute Servicer appointed in accordance with the Servicing Agreement must:

- (a) have experience of administering and servicing housing loans secured on residential property in New Zealand;
- (b) have all authorisations, permissions and licences for the purposes of administering and servicing mortgages of residential property in New Zealand; and
- (c) agree to enter into an agreement with the Covered Bond Guarantor, the Trust Manager and the Security Trustee substantially on the same terms as the Servicing Agreement or on such terms as are satisfactory to the Covered Bond Guarantor, or the Trust Manager on its behalf and the Security Trustee.

Upon termination or resignation of the appointment of the Servicer, the Servicer must, subject to all applicable privacy legislation forthwith deliver (and in the meantime, hold on trust for, and to the order of, the Security Trustee) the Housing Loan Files, all books of account, papers, records, registers, correspondence and documents in its possession or under its control relating to the affairs of, or belonging to, the Covered Bond Guarantor and the Housing Loans in the Housing Loan Portfolio and the Related Security (if practicable, on the date of receipt) any moneys and any other assets then held by the Servicer on behalf of the Covered Bond Guarantor and any other assets of the Trust to, or at the direction of, the Covered Bond Guarantor, and the Servicer shall take such further action as the Covered Bond Guarantor (or the Trust Manager on its behalf) and the Security Trustee shall require provided that the Servicer shall not be required to take or direct to be taken any such further action unless it has been indemnified to its satisfaction.

The Servicing Agreement will terminate automatically at such time as the Covered Bond Guarantor has no further interest in any of the Housing Loans in the Housing Loan Portfolio or the Related Security.

The Servicer may sub-contract or delegate the performance of all or any of its powers and obligations under the Servicing Agreement, provided that it meets conditions as set out in the Servicing Agreement.

Neither the Bond Trustee nor the Security Trustee is obliged to act as Servicer in any circumstances.

The Servicing Agreement is governed by New Zealand law.

Asset Monitor Agreement

Under the terms of the Asset Monitor Agreement entered into on the Programme Date between the Asset Monitor, the Covered Bond Guarantor, the Trust Manager, ANZ New Zealand as Issuer, Guarantor, Seller and Calculation Manager, ANZNIL, the Bond Trustee and the Security Trustee, the Asset Monitor has agreed, subject to receipt of the information to be provided by the Calculation Manager to the Asset Monitor, to test and report on the arithmetic accuracy of the calculations performed by the Calculation Manager in respect of the Asset Coverage Test or the Amortisation Test and compliance by the Calculation Manager with its obligations in relation to the Asset Register on the Determination Date immediately prior to each anniversary of the Programme Date.

If the long-term credit ratings of the Calculation Manager (or if the Calculation Manager is not so rated, if the long-term unsecured, unguaranteed and unsubordinated debt obligation credit ratings of the Calculation Manager's holding company) fall below Baa3 by Moody's or BBB- by Fitch (and for as long as they remain below such credit ratings), the Asset Monitor will be required to report on such arithmetic accuracy in respect of every Determination Date as soon as reasonably practical.

If any test conducted by the Asset Monitor reveals arithmetic errors in the relevant calculations performed by the Calculation Manager such that the Asset Coverage Test or the Amortisation Test has been failed on the relevant Determination Date (where the Calculation Manager had recorded it as being satisfied) or the reported Adjusted Aggregate Housing Loan Amount or the reported Amortisation Test Aggregate Housing Loan Amount was misstated by the Calculation Manager by an amount exceeding 1 per cent. of the actual Adjusted Aggregate Housing Loan Amount or the actual Amortisation Test Aggregate Housing Loan Amount, as applicable (as at the date of the relevant Asset Coverage Test or the relevant Amortisation Test), the Asset Monitor will be required to conduct such tests in respect of every Determination Date occurring in the period of no less than six months thereafter until the Asset Monitor is satisfied the relevant test does not reveal arithmetical error.

The Asset Monitor must assess the Calculation Manager's compliance with its obligations in relation to the Asset Register, including ensuring the Asset Register is maintained and complies with the procedures and internal controls for ensuring the Asset Register is kept up-to-date and accurate and that the Asset Pool remains consistent with any Asset Class Designation. If the Asset Monitor's assessment reveals that the Calculation Manager is not in compliance, the Asset Monitor will be required to conduct the assessment in respect of each Determination Date following the date of the assessment that revealed non-compliance until the Asset Monitor is satisfied that the Calculation Manager is in compliance with these obligations.

The Asset Monitor is entitled, in the absence of manifest error, to assume that all information provided to it by the Calculation Manager for the purpose of reporting on the arithmetic accuracy of the calculations performed by the Calculation Manager or compliance by the Calculation Manager with its obligations in relation to the Asset Register is true and correct and not misleading, and is not required to conduct an audit or other similar examination in respect of or otherwise take steps to verify the accuracy or completeness of such information. The Asset Monitor Report and the Asset Register Report will be delivered to the Calculation Manager, the Covered Bond Guarantor, ANZ New Zealand, ANZNIL, the Bond Trustee and the Security Trustee.

The Covered Bond Guarantor will pay to the Asset Monitor a fee of up to NZ\$5,000 per Asset Monitor Report, up to NZ\$20,000 for the first Asset Register Report and up to NZ\$15,000 for each subsequent Asset Register Report, provided that the maximum aggregate fee payable in respect of Asset Register Reports in any 12 month period is NZ\$60,000 (all amounts exclusive of GST, if any).

The Covered Bond Guarantor, or the Trust Manager on its behalf, may, if the Asset Monitor ceases to be a Qualifying Asset Monitor, without notice, or at any time, but only with the prior written consent of

the Security Trustee acting on the instructions of the Bond Trustee (if there are Covered Bonds outstanding) or (if there are no Covered Bonds outstanding) the Majority Secured Creditors, terminate the appointment of the Asset Monitor by giving 40 Local Business Days' prior written notice to the Asset Monitor, provided that such termination may not be effected unless and until a substitute asset monitor that is a Qualifying Asset Monitor has been found by the Covered Bond Guarantor, or the Trust Manager on its behalf.

The Asset Monitor may, at any time, resign by giving 40 Local Business Days' prior written notice to the Covered Bond Guarantor, the Trust Manager and the Security Trustee, save that such 40 Local Business Days' notice period shall not be required if (i) the Covered Bondholders agree to the resignation of the Asset Monitor by Extraordinary Resolution or (ii) the Asset Monitor is required to resign pursuant to the applicable professional standards to which it is subject at the time of such resignation.

Upon giving notice of termination or receiving notice of resignation, the Covered Bond Guarantor, or the Trust Manager on its behalf, shall use its best endeavours to promptly appoint a substitute asset monitor that is a Qualifying Asset Monitor pursuant to an agreement, on substantially the same terms as the terms of the Asset Monitor Agreement, to provide the services set out in the Asset Monitor Agreement. If a substitute asset monitor is not appointed by the date which is 20 Local Business Days prior to a Determination Date in respect of which a test or assessment is required to be conducted by the Asset Monitor in accordance with the terms of the Asset Monitor Agreement, then the Covered Bond Guarantor, or the Trust Manager on its behalf, shall use all reasonable endeavours to appoint a substitute asset monitor that is a Qualifying Asset Monitor to carry out the relevant tests on a one-off basis. The Covered Bond Guarantor, or the Trust Manager on its behalf, shall promptly notify the Rating Agencies of the appointment of any substitute asset monitor or accountancy firm to carry out the relevant tests and assessments.

Neither the Bond Trustee nor the Security Trustee will be obliged to act as Asset Monitor in any circumstances.

The Asset Monitor Agreement is governed by New Zealand law.

Establishment Deed

The Establishment Deed, made between the Covered Bond Guarantor, the Trust Manager, ANZ New Zealand as Issuer, Guarantor, Seller, Servicer and Calculation Manager, ANZNIL as Issuer, the Bond Trustee and the Security Trustee, establishes the Trust and provides that the Covered Bond Guarantor will be the trustee of the Trust. The purpose of the Trust is the acquisition, management and sale of, amongst other things, Housing Loans and the Related Security, the borrowing of moneys to fund the acquisition of such assets, the hedging of risks associated with such assets and such funding, the acquisition, management and sale of Substitution Assets and Authorised Investments, the giving of guarantees, the granting of security and any other business as the Trust Manager shall direct (with the prior written consent of the Security Trustee, prior to the release of the Security constituted by the Security Deed for as long as the Covered Bonds are outstanding).

Beneficiaries

The Beneficiaries of the Trust are the Residual Income Beneficiary and the Residual Capital Beneficiary. Pursuant to the Establishment Deed, the Residual Income Beneficiary is entitled to an annual distribution equal to the net income, if any, of the Trust for each fiscal year. The Residual Capital Beneficiary is not entitled to receive any distributions in respect of the Trust other than its right to receive the Settlement Amount of NZ\$2,000 on the Vesting Date.

Asset Register

The Covered Bond Guarantor agrees to maintain, or ensure that there is maintained, in accordance with the Asset Register Procedures a full and complete asset register that contains an up-to-date and accurate record of the assets of the Trust.

Asset Coverage Test

Under the terms of the Establishment Deed, the Covered Bond Guarantor must ensure that, for so long as Covered Bonds remain outstanding, on each Determination Date prior to the service of a Notice to Pay on the Covered Bond Guarantor, the Adjusted Aggregate Housing Loan Amount is in an amount at least equal to the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Determination Date (the "**Asset Coverage Test**").

If on any Determination Date prior to the service of a Notice to Pay on the Covered Bond Guarantor the Adjusted Aggregate Housing Loan Amount is less than the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on such date, then the Covered Bond Guarantor (or the Trust Manager on its behalf) shall immediately notify the Bond Trustee and the Security Trustee in writing thereof, and the Covered Bond Guarantor will use all reasonable endeavours to (i) acquire sufficient further Housing Loans and the Related Security from the Seller in accordance with the Mortgage Sale Agreement (see "*Summary of the Principal Documents—Mortgage Sale Agreement—Sale by the Seller of Housing Loans and Related Security*"); (ii) purchase Substitution Assets; or (iii) make drawings under the Demand Loan Agreement, in each case in order to ensure that the Asset Coverage Test is met on the immediately succeeding Determination Date (by reference to the Adjusted Aggregate Housing Loan Amount and the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds, in each case as calculated on such date). If the Adjusted Aggregate Housing Loan Amount is less than the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds on the immediately succeeding Determination Date referred to above, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the Covered Bond Guarantor (subject to the Bond Trustee having actual knowledge or express notice of the breach). The Bond Trustee shall be deemed to revoke an Asset Coverage Test Breach Notice if, on the next Determination Date to occur following the service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is subsequently satisfied and neither a Notice to Pay nor a Covered Bond Guarantee Acceleration Notice has been served. If the Bond Trustee is deemed to revoke an Asset Coverage Test Breach Notice, the Covered Bond Guarantor (or the Trust Manager on its behalf) shall immediately notify in writing the Bond Trustee thereof.

Following service of an Asset Coverage Test Breach Notice (which has not been revoked):

- (a) the Covered Bond Guarantor may be required to sell Selected Housing Loans and the Related Security (as further described under "*Sale of Selected Housing Loans and Related Security following service of an Asset Coverage Test Breach Notice*");
- (b) prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of a Covered Bond Guarantor Event of Default and service of a Covered Bond Guarantee Acceleration Notice, the Pre-Acceleration Priority of Payments will be modified as more particularly described in "*Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice*" below; and
- (c) the Issuers will not be permitted to issue any further Covered Bonds.

If an Asset Coverage Test Breach Notice has been served and has not been revoked by the Bond Trustee on or before the next Determination Date to occur following the service of the Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee shall be entitled and in certain circumstances required to serve an Issuer Acceleration Notice. Following service of an Issuer Acceleration Notice, the Bond Trustee will be required to serve a Notice to Pay on the Covered Bond Guarantor.

For the purposes hereof:

"Adjusted Aggregate Housing Loan Amount" means the amount calculated on each Determination Date as follows:

$$(A + B + C + D + E) - Z$$

where,

"A" = the lower of: (i) the sum of the LVR Adjusted Housing Loan Balance Amount of each Housing Loan in the Housing Loan Portfolio; and (ii) the sum of the Asset Percentage Adjusted Housing Loan Balance Amount of each Housing Loan in the Housing Loan Portfolio; as at the Determination Date.

The "**LVR Adjusted Housing Loan Balance Amount**" shall be calculated for a Housing Loan, on the relevant Determination Date, as:

- (d) for each Housing Loan in the Housing Loan Portfolio that is not then a Defaulted Housing Loan, the lesser of (A) the outstanding Current Principal Balance of the Housing Loan as at the last day of the immediately preceding Collection Period and (B) 80 per cent. of the Indexed Valuation for the Property charged by a Mortgage which secures the Housing Loan as at the last day of the immediately preceding Collection Period (but without double counting across Housing Loans); and
- (e) for each Housing Loan in the Housing Loan Portfolio that is then a Defaulted Housing Loan, zero;

less:

- (A) where a Housing Loan in the Housing Loan Portfolio or the Related Security was, in the immediately preceding Collection Period, known by the Covered Bond Guarantor or the Trust Manager to be in breach of the Representations and Warranties contained in the Mortgage Sale Agreement as at the date of its sale to the Covered Bond Guarantor, and the Seller has not repurchased the Housing Loan and the Related Security to the extent required by the terms of the Mortgage Sale Agreement: an amount equal to the LVR Adjusted Housing Loan Balance Amount (calculated as at the last day of the immediately preceding Collection Period) for each Housing Loan to which this paragraph (A) applies; and
- (B) where the Seller, in any preceding Collection Period, was in material breach of any other warranty under the Mortgage Sale Agreement and/or the Servicer was, in any preceding Collection Period, in material breach of a term of the Servicing Agreement: an amount equal to the resulting financial loss incurred by the Covered Bond Guarantor in the immediately preceding Collection Period (such financial loss to be calculated by the Trust Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the Covered Bond Guarantor by the Seller or by the Servicer (as applicable) to indemnify the Covered Bond Guarantor for such financial loss);

The "**Asset Percentage Adjusted Housing Loan Balance Amount**" shall be calculated for a Housing Loan, on the relevant Determination Date, as the Asset Percentage multiplied by:

- (a) for each Housing Loan in the Housing Loan Portfolio that is not then a Defaulted Housing Loan, the lower of:
 - (i) the outstanding Current Principal Balance of the Housing Loan as at the last day of the immediately preceding Collection Period; and
 - (ii) 100 per cent. of the Latest Valuation for the Property charged by a Mortgage which secures the Housing Loan as at the last day of the immediately preceding Collection Period (but without double counting across Housing Loans); and
- (b) for each Housing Loan in the Housing Loan Portfolio that is then a Defaulted Housing Loan, zero;

less:

- (i) where a Housing Loan in the Housing Loan Portfolio or the Related Security was, in the immediately preceding Collection Period, known by the Covered Bond Guarantor or the Trust Manager to be in breach of the Representations and Warranties contained in the Mortgage Sale Agreement as at the date of its sale to the Covered Bond Guarantor, and the Seller has not repurchased the Housing Loan and the Related Security to the extent required by the terms of the Mortgage Sale Agreement: an

amount equal to the Asset Percentage Adjusted Housing Loan Balance Amount (calculated as at the last day of the immediately preceding Collection Period) for each Housing Loan to which this paragraph (i) applies; and

- (ii) where the Seller, in any preceding Collection Period, was in material breach of any other warranty under the Mortgage Sale Agreement and/or the Servicer was, in any preceding Collection Period, in material breach of a term of the Servicing Agreement: an amount equal to the resulting financial loss incurred by the Covered Bond Guarantor in the immediately preceding Collection Period (such financial loss to be calculated by the Trust Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the Covered Bond Guarantor by the Seller or by the Servicer (as applicable) to indemnify the Covered Bond Guarantor for such financial loss);

"B" = the aggregate amount of any proceeds of any Term Advances and/or any Demand Loan Advances which have not been applied as at the Determination Date;

"C" = the aggregate principal balance of any Substitution Assets and Authorised Investments as at the relevant Determination Date;

"D" = the aggregate amount of Housing Loan Principal Receipts collected by the Servicer during the immediately preceding Collection Period and credited, or to be credited on the immediately succeeding Trust Payment Date, to the GIC Account (without double counting any amounts already covered in B above) but excluding any amounts due to be applied on or before the immediately succeeding Trust Payment Date in accordance with the applicable Priority of Payments;

"E" = the aggregate amount as at the Determination Date of:

- (a) Sale Proceeds credited to the GIC Account (including, without limitation, the amount of any Sale Proceeds standing to the credit of the Pre-Maturity Ledger); and
- (b) remaining Available Principal Receipts credited to the GIC Account under paragraph (h) of the Pre-Acceleration Principal Priority of Payments and standing to the credit of the Principal Ledger,

(in each case without double counting any amounts already covered in D above but excluding any amounts due to be applied on or before the immediately succeeding Trust Payment Date in accordance with the applicable Priority of Payments); and

"Z" = the product of:

- (a) weighted average remaining maturity of all Covered Bonds (expressed in years) then outstanding calculated by the Calculation Manager as at the Determination Date (provided that if the weighted average remaining maturity of all Covered Bonds (expressed in years) then outstanding is less than one, such weighted average remaining maturity shall be deemed for the purposes of this calculation, to be one);
- (b) the NZ dollar Equivalent of the then aggregate Principal Amount Outstanding of the Covered Bonds;
- (c)
- (i) for so long as the Interest Rate Swap is in effect in accordance with the terms thereof, $(B + C + D + E) / (A + B + C + D + E)$; or
- (ii) otherwise, one; and
- (d) the then Negative Carry Factor, where the "Negative Carry Factor" is the percentage rate per annum equal to the sum of (i) 0.50 per cent.; and (ii) the weighted average of the Relevant Spread of each Series of Covered Bonds then outstanding determined by reference to the NZ dollar Equivalent of the

aggregate Principal Amount Outstanding of the applicable Series of Covered Bonds, where the "**Relevant Spread**" is (A) in the case of a Series of floating rate Covered Bonds the Specified Currency of which is NZ dollars, the Margin for the Series specified in the applicable Final Terms; and (B) in any other case the Floating Rate Payer Spread in the applicable Covered Bond Swap.

"**Asset Percentage**" means, on any Determination Date, save where otherwise agreed with the Rating Agencies, the lowest of:

90 per cent;

- (i) such percentage figure determined on the Determination Date falling in March, June, September and December of each year (and on such other dates as may be agreed, from time to time, with Fitch) in accordance with the terms of the Establishment Deed, being the percentage figure that is necessary to ensure that the Covered Bonds maintain the then current credit ratings assigned to them by Fitch; and
- (ii) such percentage figure as may be selected by the Covered Bond Guarantor, or the Calculation Manager acting on its behalf, from time to time, in accordance with the terms of the Establishment Deed, and notified to Moody's and the Security Trustee on the Determination Date, or if no notification is made to Moody's and the Security Trustee on such Determination Date, on the last date of such notification. This percentage figure will be the difference between 100 and the percentage amount of credit enhancement that is necessary to ensure that there is sufficient credit enhancement for the Covered Bonds to achieve an Aaa credit rating by Moody's using Moody's expected loss methodology (regardless of the actual Moody's credit rating of the Covered Bonds at the time).

There is no obligation on the Covered Bond Guarantor to ensure that an AAA credit rating is maintained by Fitch or an Aaa credit rating is maintained by Moody's and the Covered Bond Guarantor is under no obligation to change the percentage figure selected by it and notified to Fitch, Moody's and the Security Trustee in line with the level of credit enhancement required to ensure an AAA credit rating by Fitch or an Aaa credit rating by Moody's using Moody's expected loss methodology.

Amortisation Test

The Covered Bond Guarantor must ensure that, for so long as Covered Bonds are outstanding, on each Determination Date following service of a Notice to Pay on the Covered Bond Guarantor (but prior to the enforcement of the Security in accordance with the Security Deed), the Amortisation Test Aggregate Housing Loan Amount is in an amount at least equal to the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Determination Date (the "**Amortisation Test**").

If on any Determination Date following service of a Notice to Pay on the Covered Bond Guarantor (but prior to the service of a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor, the Issuers and the Guarantor and/or the commencement of winding up proceedings against the Trust and/or the realisation of the Security), the Amortisation Test Aggregate Housing Loan Amount is less than the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Determination Date then the Amortisation Test will be breached and a Covered Bond Guarantor Event of Default will occur. The Covered Bond Guarantor, or the Trust Manager on its behalf, shall immediately notify the Security Trustee and (for so long as Covered Bonds are outstanding) the Bond Trustee of any breach of the Amortisation Test.

The "**Amortisation Test Aggregate Housing Loan Amount**" will be calculated on each Determination Date following the service of a Notice to Pay on the Covered Bond Guarantor as follows:

$$A + B + C - Z$$

where,

"**A**" = the aggregate of the "Amortisation Test Current Principal Balance" of each Housing Loan, which shall be the product of:

- (a) the lesser of (i) the outstanding Current Principal Balance of the Housing Loan as calculated on the last day of the immediately preceding Collection Period and (ii) 80 per cent. of the Indexed Valuation for the Property charged by a Mortgage which secures the Housing Loan as at the immediately preceding Collection Period (but without double counting across Housing Loans); and
 - (b) M, where:
 - (i) for each Housing Loan that is not then a Defaulted Housing Loan, $M = 1.0$; or
 - (ii) for each Housing Loan that is then a Defaulted Housing Loan, $M = \text{zero}$;
- "B" = the sum of the amount of any cash standing to the credit of the GIC Account and the principal amount of any Authorised Investments (excluding any Housing Loan Revenue Receipts received in the immediately preceding Collection Period and any principal amounts due to be applied on or before the next Trust Payment Date in accordance with the applicable Priority of Payments);
- "C" = the aggregate principal balance of any Substitution Assets not taken into account elsewhere in this calculation; and
- "Z" = the product of:
- (a) the weighted average remaining maturity of all Covered Bonds (expressed in years) then outstanding;
 - (b) the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds;
 - (c) (i) for so long as the Interest Rate Swap is in effect in accordance with the terms thereof, $(B + C) / (A + B + C)$; or
 - (ii) otherwise, one; and
 - (d) the Negative Carry Factor.

Sale of Selected Housing Loans and Related Security if the Pre-Maturity Test is breached

The Covered Bond Guarantor, or the Trust Manager on its behalf, is required to immediately offer to sell Selected Housing Loans to Purchasers following a breach of the Pre-Maturity Test in respect of a Series of Hard Bullet Covered Bonds, after taking into account the amount standing to the credit of the Pre-Maturity Ledger and subject to (a) any Pre-Maturity Demand Loan Advance having been made by the Demand Loan Provider, and (b) the exercise of any right of pre-emption by the Seller in accordance with the Mortgage Sale Agreement.

The Pre-Maturity Test will be breached in relation to a Series of Hard Bullet Covered Bonds if ANZ New Zealand's short-term credit rating from Moody's falls to P-2 (or lower) or from Fitch falls to F1 (or lower) during the period commencing on the day 12 months prior to the Final Maturity Date of the Series of Hard Bullet Covered Bonds.

The proceeds from any such sale will be credited to the Pre-Maturity Ledger and deposited into the GIC Account. If the Issuer fully repays a Series of Hard Bullet Covered Bonds on their Final Maturity Date, any amount standing to the credit of the Pre-Maturity Ledger on the GIC Account in respect of the Series of Hard Bullet Covered Bonds following such repayment in full shall be applied by the Covered Bond Guarantor, acting on the directions of the Trust Manager in accordance with the applicable Priority of Payments unless an Issuer is in breach of the Pre-Maturity Test in respect of any other Series of Hard Bullet Covered Bonds, in which case sufficient cash shall be retained on the Pre-Maturity Ledger in order to provide liquidity for that other Series of Hard Bullet Covered Bonds. Otherwise, the proceeds will be applied as set out in "*Credit Structure*" below.

For a description of the Pre-Maturity Test, see "*Credit Structure – Pre-Maturity Test*" below.

Sale of Selected Housing Loans following the Demand Loan Provider making a demand that the Demand Loan be repaid

If, prior to the service of an Asset Coverage Test Breach Notice or a Notice to Pay, the Demand Loan Provider has demanded that all or part of the Demand Loan be repaid, the Covered Bond Guarantor will, subject to first utilising any Available Principal Receipts that are available for that purpose in accordance with the applicable Priority of Payments, be obliged to sell Selected Housing Loans and the Related Security in the Housing Loan Portfolio in accordance with the Establishment Deed (as described below), subject to the rights of pre-emption enjoyed by the Seller to buy the Selected Housing Loans and the Related Security pursuant to the Mortgage Sale Agreement. The proceeds from any such sale will be deposited into the GIC Account and applied in accordance with the applicable Priority of Payments. Any such sale will be subject to the condition that the Asset Coverage Test is satisfied after receipt of the proceeds of such sale and repayment of the amount of the Demand Loan that the Demand Loan Provider has requested repayment of, after giving effect to such repayment.

Sale of Selected Housing Loans and Related Security following service of an Asset Coverage Test Breach Notice

After service of an Asset Coverage Test Breach Notice (which has not been revoked) but prior to service of a Notice to Pay, the Covered Bond Guarantor will, subject to first utilising the proceeds of any advance made by the Demand Loan Provider under the Demand Loan Agreement, be obliged to sell Selected Housing Loans and the Related Security in the Housing Loan Portfolio in accordance with the Establishment Deed (as described below), subject to the rights of pre-emption enjoyed by the Seller to buy the Selected Housing Loans and the Related Security pursuant to the Mortgage Sale Agreement. The proceeds from any such sale will be deposited into the GIC Account and applied in accordance with the applicable Priority of Payments.

Sale of Selected Housing Loans and Related Security following service of a Notice to Pay

After a Notice to Pay has been served on the Covered Bond Guarantor following the occurrence of an Issuer Event of Default, the Covered Bond Guarantor will be obliged to sell Selected Housing Loans and the Related Security in the Housing Loan Portfolio in accordance with the Establishment Deed (as described below), subject to the rights of pre-emption enjoyed by the Seller to buy the Selected Housing Loans and the Related Security pursuant to the Mortgage Sale Agreement. The proceeds from any such sale will be deposited into the GIC Account and applied in accordance with the Guarantee Priority of Payments.

Method of Sale of Selected Housing Loans

If the Covered Bond Guarantor is required to sell Selected Housing Loans and the Related Security to Purchasers following repayment of the Demand Loan being demanded by the Demand Loan Provider, service of an Asset Coverage Test Breach Notice, a breach of the Pre-Maturity Test or the service of a Notice to Pay on the Covered Bond Guarantor, the Covered Bond Guarantor, or the Trust Manager on its behalf, will be required to ensure that before offering Selected Housing Loans for sale:

- (a) the Selected Housing Loans are selected on a basis that is representative of the Housing Loans in the Housing Loan Portfolio as a whole and that if a Housing Loan is selected, its Related Security is also selected unless the Related Security also secures a Housing Loan in the Housing Loan Portfolio that is not also a Selected Housing Loan; and
- (b) the Selected Housing Loans have an aggregate Current Principal Balance in an amount (the "**Required Current Principal Balance Amount**") which is as close as possible to the amount calculated as follows:
 - (i) following the Demand Loan Provider requesting repayment of the Demand Loan (or a part of it), such amount that would ensure that, if the Selected Housing Loans were sold at their Current Principal Balance plus the arrears of interest and accrued interest thereon, the amount of the Demand Loan that the Demand Loan Provider has requested repayment of as calculated on the date of the request could be repaid, subject to satisfaction of the Asset Coverage Test following such repayment; or

- (ii) following the service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay), such amount that would ensure that, if the Selected Housing Loans were sold at their Current Principal Balance plus the arrears of interest and accrued interest thereon, the Asset Coverage Test would be satisfied on the next Determination Date taking into account the payment obligations of the Covered Bond Guarantor on the Trust Payment Date following that Determination Date; or
- (iii) following a breach of the Pre-Maturity Test or service of a Notice to Pay:

$$N_x \frac{\text{Aggregate Current Principal Balance for all Housing Loans in the Housing Loan Portfolio}}{\text{Aggregate NZ dollar Equivalent of the Required Redemption Amount in respect of each Series of Covered Bonds then outstanding}}$$

Where "N" is an amount equal to the NZ dollar Equivalent of:

- (x) in respect of Selected Housing Loans and the Related Security being sold following a breach of the Pre-Maturity Test in respect of a Series of Hard Bullet Covered Bonds, the Required Redemption Amount of each Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test has been breached less amounts standing to the credit of the Pre-Maturity Ledger; or
- (y) in respect of Selected Housing Loans and the Related Security being sold following the service of a Notice to Pay on the Covered Bond Guarantor, the Required Redemption Amount of the Earliest Maturing Covered Bonds less amounts standing to the credit of the GIC Account and the principal amount of any Authorised Investments and the principal amount of any Substitution Assets that have not been sold in accordance with the Establishment Deed (excluding all amounts to be applied on the next following Trust Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds) (see "*Limit on Investing in Substitution Assets and Authorised Investments*" below).

The Covered Bond Guarantor, or the Trust Manager on its behalf, will offer the Selected Housing Loans and the Related Security for sale to Purchasers for the best price reasonably available but in any event:

- (a) following the service of an Asset Coverage Test Breach Notice (but prior to the service of a Notice to Pay), for an amount not less than the Current Principal Balance of the Selected Housing Loans plus the arrears of interest and accrued interest thereon; and
- (b) following a breach of the Pre-Maturity Test or service of a Notice to Pay on the Covered Bond Guarantor, for an amount not less than the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds.

Following a breach of the Pre-Maturity Test or service of a Notice to Pay on the Covered Bond Guarantor if the Selected Housing Loans and the Related Security have not been sold (in whole or in part) in an amount equal to the Adjusted Required Redemption Amount by the date which is six months prior to, either:

- (a) the Final Maturity Date in respect of the Earliest Maturing Covered Bonds (after taking into account all payments, provisions and credits to be made in priority thereto) (where the Covered Bonds are not subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee);
- (b) the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds (after taking into account all payments, provisions and credits to be made in priority thereto) (where the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee); or
- (c) in respect of a sale in connection with the Pre-Maturity Test, the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds,

then the Covered Bond Guarantor, or the Trust Manager on its behalf, will offer the Selected Housing Loans for sale for the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

Following the service of a Notice to Pay but prior to the occurrence of a Covered Bond Guarantor Event of Default, in addition to offering Selected Housing Loans for sale to Purchasers in respect of the Earliest Maturing Covered Bonds, the Covered Bond Guarantor, or the Trust Manager on its behalf (subject to the right of pre-emption in favour of the Seller in the Mortgage Sale Agreement) is permitted to offer for sale a portfolio of Selected Housing Loans, in accordance with the provisions summarised above, in respect of other Series of Covered Bonds.

The Covered Bond Guarantor, or the Trust Manager on its behalf, will also be permitted to offer for sale to Purchasers part of any portfolio of Selected Housing Loans (a "**Partial Portfolio**"). Except in circumstances where the portfolio of Selected Housing Loans is being sold within six months of, as applicable, the Final Maturity Date or, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Series of Covered Bonds to be repaid from such proceeds, the sale price of the Partial Portfolio shall (as a proportion of the Adjusted Required Redemption Amount) be at least equal to the proportion that the aggregate Current Principal Balance of the Housing Loans in the Partial Portfolio bears to the aggregate Current Principal Balance of the Housing Loans in the relevant portfolio of Selected Housing Loans.

The Covered Bond Guarantor, or the Trust Manager on its behalf, will through a tender process appoint a portfolio manager of recognised standing on a basis intended to incentivise the portfolio manager to achieve the best price for the sale of the Selected Housing Loans (if such terms are commercially available in the market) to advise it in relation to the sale of the Selected Housing Loans to Purchasers (except where the Seller is buying the Selected Housing Loans in accordance with its right of pre-emption in the Mortgage Sale Agreement). The terms of the agreement giving effect to the appointment in accordance with such tender shall be approved by the Security Trustee. The Security Trustee shall approve the appointment of the portfolio manager if (i) the portfolio manager is an investment bank or accountant of recognised standing; and (ii) two Authorised Signatories of the Covered Bond Guarantor have certified to the Security Trustee that such appointment is on a basis intended to incentivise the portfolio manager to achieve the best price for the sale of the Selected Housing Loans (on terms which are commercially available in the market), which certificate shall be conclusive and binding on all parties.

In respect of any sale of Selected Housing Loans and the Related Security following service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay, the Covered Bond Guarantor, or the Trust Manager on its behalf, will instruct the portfolio manager to use all reasonable endeavours to procure that Selected Housing Loans are sold as quickly as reasonably practicable (in accordance with the recommendations of the portfolio manager), taking into account the market conditions at that time and the scheduled repayment dates of the Covered Bonds and the terms of the Establishment Deed.

The terms of any sale and purchase agreement with respect to the sale of Selected Housing Loans (which shall give effect to the recommendations of the portfolio manager) will be subject to the prior written approval of the Security Trustee (unless the Selected Housing Loans are being sold to the Seller following the exercise of its rights of pre-emption under the Mortgage Sale Agreement). The Security Trustee will not be required to release the Selected Housing Loans from the Security unless the conditions relating to the release of the Security (as described under "*Security Deed – Release of Security*" below) are satisfied.

Following the service of a Notice to Pay, if Purchasers accept the offer or offers from the Covered Bond Guarantor so that some or all of the Selected Housing Loans and the Related Security shall be sold prior to the next following Final Maturity Date or, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the next following Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, then the Covered Bond Guarantor, or the Trust Manager on its behalf, will, subject to the prior written approval of the Security Trustee, enter into a sale and purchase agreement with the related Purchasers, which will require, amongst other things, a cash payment from the relevant Purchasers. Any such sale will not include any representations or warranties from the Covered Bond Guarantor or the Seller in respect of

the Selected Housing Loans and the Related Security unless expressly agreed by the Security Trustee or otherwise agreed with the Seller.

Limit on Investing in Substitution Assets and Authorised Investments

Provided no Asset Coverage Test Breach Notice is outstanding, there has been no breach of the Pre-Maturity Test and prior to the service of a Notice to Pay on the Covered Bond Guarantor, the Covered Bond Guarantor, acting on the directions of the Trust Manager, will be permitted to invest Available Revenue Receipts, Available Principal Receipts and the proceeds of Term Advances and Demand Loan Advances standing to the credit of the GIC Account in Substitution Assets, provided that the aggregate amount so invested in Substitution Assets does not exceed 10 per cent. of the total assets of the Trust at any one time and provided that such investments are made in accordance with the terms of the Management Agreement and the Establishment Deed. Depositing any amounts in any Trust Account will not constitute an investment in Substitution Assets for these purposes.

Following the service of a Notice to Pay on the Covered Bond Guarantor or a breach of the Pre-Maturity Test, all Substitution Assets shall be sold by the Covered Bond Guarantor, acting on the directions of the Trust Manager, as quickly as reasonably practicable, and the proceeds credited to the GIC Account after which the Covered Bond Guarantor shall be permitted to invest all available monies in Authorised Investments, provided that such sales or investments are made in accordance with the terms of the Management Agreement and the Establishment Deed.

Covenants of the Covered Bond Guarantor

The Covered Bond Guarantor has covenanted with the Trust Manager and for the benefit of the Secured Creditors that:

- (a) it will act continuously as trustee of the Trust until the Trust is terminated in accordance with the Establishment Deed or until it has retired or been removed in accordance with the Establishment Deed;
- (b) it will exercise due diligence in carrying out its functions and duties under the Establishment Deed;
- (c) it will take all such corporate actions which are necessary (including, without limitation, obtaining all such corporate authorisations and approvals) to ensure that it is able to exercise all its powers and remedies and perform all its obligations under the Programme Documents;
- (d) except where required by statute or law, it will not sell, mortgage, charge or part with the possession of any of the assets of the Trust (or permit any of its officers to do so) except as permitted by the Programme Documents;
- (e) it will forward promptly to the Trust Manager all notices, reports, circulars and other documents received by it as holder of the assets of the Trust;
- (f) it will act honestly and in good faith in the performance of its duties and the exercise of its discretions under the Programme Documents in relation to the Trust, having regard to the interests of the Beneficiaries and the Secured Creditors;
- (g) it will exercise such diligence and prudence as a prudent person of business would exercise in performing its express functions and in exercising its discretions under the Programme Documents in relation to the Trust, having regard to the interests of the Beneficiaries and the Secured Creditors;
- (h) it will use its best endeavours to carry on and conduct its business insofar as it relates to the Establishment Deed and the other Programme Documents in a proper and efficient manner;
- (i) it will not create any Security Interest over the assets of the Trust for the benefit of any person except for the Security;
- (j) it will give any reasonable assistance to the Trust Manager in relation to the Trust as is reasonably requested by the Trust Manager (at the cost of the Trust Manager);

- (k) it will act on all written directions given to it by the Trust Manager which it is satisfied are given in accordance with the terms of the Programme Documents;
- (l) it will promptly notify the Trust Manager and the Rating Agencies of the occurrence of an event requiring mandatory retirement of the Covered Bond Guarantor pursuant to the terms of the Establishment Deed;
- (m) it will remain Tax Resident in New Zealand while it is acting as trustee of the Trust; and
- (n) except to the extent it is required to do so, it will not perform any of its duties, or exercise any rights in relation to the Trust, or otherwise manage the Trust outside of New Zealand.

Indemnification of Covered Bond Guarantor

Subject to the Establishment Deed and the applicable Priority of Payments, the Covered Bond Guarantor will be indemnified out of the assets of the Trust against all costs, expenses, loss and liabilities properly incurred by the Covered Bond Guarantor (including, for the avoidance of doubt, any liability of it under an indemnity given by it) in performing any of its duties or exercising any of its powers under the Establishment Deed in relation to the Trust to the extent that the cost, expense, loss or liability has been incurred by the Covered Bond Guarantor in connection with the performance of its duties or the exercise of its powers in respect of the trust and except to the extent that any such cost, expense, loss or liability is caused by the Covered Bond Guarantor's breach of trust, fraud, gross negligence or wilful default.

Other Provisions

The allocation and distribution of Available Revenue Receipts, Available Principal Receipts and all other amounts received by the Covered Bond Guarantor is described under "*Cashflows*" below.

The Establishment Deed is governed by New Zealand law.

Management Agreement

The Trust Manager will provide certain Cash Management Services and the Calculation Manager will provide certain Calculation Management Services and Asset Registry Services to the Covered Bond Guarantor and the Security Trustee pursuant to the terms of the Management Agreement entered into on the Programme Date between the Covered Bond Guarantor, the Trust Manager, ANZ New Zealand as Seller, Servicer, Account Bank and Calculation Manager and the Security Trustee.

The Cash Management Services will include but will not be limited to:

- (a) maintaining the Ledgers on behalf of the Covered Bond Guarantor;
- (b) determining the amount of Housing Loan Revenue Receipts and the Housing Loan Principal Receipts collected during each Collection Period and the amount of Available Revenue Receipts and Available Principal Receipts to be distributed on the immediately following Trust Payment Date;
- (c) determining the amount of Losses incurred on the Housing Loans in the Housing Loan Portfolio during each Collection Period and the amounts payable by the Covered Bond Guarantor on the immediately following Trust Payment Date under the applicable Priority of Payments described under "*Cashflows*" below;
- (d) directing the Covered Bond Guarantor in relation to the application of Available Revenue Receipts and the Available Principal Receipts in accordance with the Priorities of Payment described under "*Cashflows*" below; and
- (e) maintaining records of all Authorised Investments and Substitution Assets, as applicable.

The Calculation Management Services will include but will not be limited to:

- (a) determining whether the Housing Loan Portfolio is in compliance with the Asset Coverage Test on each Determination Date prior to an Issuer Event of Default and service of a Notice to

Pay on the Covered Bond Guarantor in accordance with the Establishment Deed, as more fully described under "*Credit Structure – Asset Coverage Test*" below;

- (b) determining whether the Housing Loan Portfolio is in compliance with the Amortisation Test on each Determination Date following an Issuer Event of Default and service of a Notice to Pay on the Covered Bond Guarantor but prior to the service of a Covered Bond Guarantee Acceleration Notice in accordance with the Establishment Deed, as more fully described under "*Credit Structure – Amortisation Test*" below; and
- (c) on each Local Business Day during the Pre-Maturity Test Period, determining whether the Pre-Maturity Test for each Series of Hard Bullet Covered Bonds is satisfied, as more fully described under "*Credit Structure – Pre-Maturity Test*" below.

The Asset Registry Services will include but will not be limited to, in accordance with the Asset Register Procedures:

- (a) establishing the Asset Register so that it is an up-to-date and accurate record of the Asset Pool;
- (b) updating the Asset Register, within five Local Business Days of receiving notice from the Covered Bond Guarantor (or the Trust Manager on its behalf) of the occurrence of the relevant transaction (as set out below), to record the following:
 - (i) the acquisition of a New Housing Loan Portfolio;
 - (ii) the sale of a Housing Loan in the Housing Loan Portfolio and (if applicable) the Related Security;
 - (iii) the repayment in full of the Current Principal Balance of a Housing Loan in the Housing Loan Portfolio;
 - (iv) the acquisition of an Authorised Investment or a Substitution Asset;
 - (v) the redemption or sale of an Authorised Investment or a Substitution Asset;
 - (vi) the opening or closing of a Trust Account;
- (c) assessing whether the Asset Pool remains consistent with any Asset Class Designation.

The Establishment Deed provides that, subject to the applicable Priority of Payments, the Trust Manager will be indemnified by the Covered Bond Guarantor against all costs, expenses, loss and liability properly incurred by the Trust Manager in its capacity as Trust Manager of the Trust except to the extent that the relevant cost, expense, loss or liability is caused or contributed to by the Trust Manager's fraud, gross negligence or wilful default.

In certain circumstances the Covered Bond Guarantor and/or the Security Trustee will each have the right to terminate the appointment of the Calculation Manager, in which event the Covered Bond Guarantor will use its reasonable endeavours to appoint a substitute calculation manager (subject to the Security Trustee's prior written approval and delivery by the Trust Manager to the Covered Bond Guarantor and the Security Trustee of a Rating Affirmation Notice). Any substitute calculation manager will have substantially the same rights and obligations as the Calculation Manager (although the fee payable to the substitute calculation manager may be higher).

In certain circumstances the Covered Bond Guarantor and/or the Security Trustee may terminate the appointment of the Trust Manager to perform the Cash Management Services, in which event the Covered Bond Guarantor will use its reasonable endeavours to appoint a substitute (subject to the Security Trustee's prior written approval and delivery by the Trust Manager to the Covered Bond Guarantor and the Security Trustee of a Rating Affirmation Notice). Any substitute trust manager will have substantially the same rights and obligations as the Trust Manager (although the fee payable to the substitute trust manager may be higher).

The Trust Manager is entitled to a fee for the provision of the Cash Management Services under the Management Agreement which has been agreed in writing between the Covered Bond Guarantor, the Security Trustee and the Trust Manager.

The Calculation Manager is entitled to a fee for the provision of the Calculation Management Services and Asset Registry Services under the Management Agreement which has been agreed in writing between the Covered Bond Guarantor, the Security Trustee and the Calculation Manager. The Management Agreement is governed by New Zealand law.

Delegation Agreement

Pursuant to the terms of the Delegation Agreement entered into on the Programme Date between the Trust Manager and ANZ New Zealand, the Trust Manager has delegated certain of its functions in relation to the Trust and the Cash Management Services to ANZ New Zealand. The Delegation Agreement may be terminated at any time by either party by giving three months' written notice to the other party (or such shorter period as the parties may agree). Following the occurrence of an Issuer Event of Default, the Covered Bond Guarantor is permitted to terminate the Delegation Agreement upon written notice to ANZ New Zealand and the Trust Manager.

The Delegation Agreement is governed by New Zealand law.

Swap Agreements

In order to hedge certain interest rate, currency or other risks in respect of amounts received by the Covered Bond Guarantor under the Housing Loans and amounts payable by the Covered Bond Guarantor under the Intercompany Loan Agreement to the Intercompany Loan Provider and/or under the Demand Loan Agreement to the Demand Loan Provider and/or amounts payable by the Covered Bond Guarantor under the Covered Bond Guarantee to Covered Bondholders in respect of the Covered Bonds on issue, the Covered Bond Guarantor will enter into certain swap transactions with swap providers as described below.

Each such swap transaction (including, without limitation, the Interest Rate Swap and each Covered Bond Swap) (the "**Swaps**") will be between a swap provider (the "**Swap Provider**") and the Covered Bond Guarantor (and the Trust Manager and the Security Trustee) and will be governed by, and subject to, an agreement in the form of the 2002 ISDA Master Agreement as published by the International Swaps & Derivatives Association, Inc. ("ISDA") together with its Schedule and Credit Support Annex (to be in the form of the 1995 Credit Support Annex (Transfer – English law) published by ISDA) and the Confirmation evidencing the relevant swap transaction (together, the "**Swap Agreement**").

Interest Rate Swap Agreement

Some of the Housing Loans in the Housing Loan Portfolio from time to time pay a variable amount of interest. Other Housing Loans pay a fixed rate of interest for a period of time. However, the NZ dollar payments to be made by the Covered Bond Guarantor under the Covered Bond Swaps, the Term Advances and the Demand Loan will be based on the 30-day Bank Bill Rate or the rate for such other period as may be agreed in relation to a particular Series of Covered Bonds. To provide a hedge against the variance between:

- (a) the rates of interest payable on the Housing Loans in the Housing Loan Portfolio; and
- (b) the Bank Bill Rate for the applicable interest or calculation period,

the Covered Bond Guarantor, the Trust Manager, the Security Trustee and the Interest Rate Swap Provider will enter into an Interest Rate Swap under the Interest Rate Swap Agreement.

The Interest Rate Swap Agreement and any non-contractual obligations arising out of or in connection with it is governed by English law.

Covered Bond Swap Agreements

Where Covered Bonds are issued in a currency and/or on an interest rate basis different to the Interest Rate Swap, the Covered Bond Guarantor will enter into one or more Covered Bond Swaps with one or

more Covered Bond Swap Providers. As at the date of the Prospectus, ANZ New Zealand is the Covered Bond Swap Provider in relation to each outstanding Series of Covered Bonds. For information in relation to ANZ New Zealand, see the section "*ANZ Bank New Zealand Limited*" in this Prospectus.

Each Covered Bond Swap may be either a "**Forward Starting Covered Bond Swap**" or a "**Non-Forward Starting Covered Bond Swap**" and each will constitute the sole Transaction (as described in the relevant Covered Bond Swap) under a single Covered Bond Swap Agreement (such Covered Bond Swap Agreements, together, the "**Covered Bond Swap Agreements**"). Where the Covered Bond Guarantor enters into a Forward Starting Covered Bond Swap, the related Term Advance made under the Intercompany Loan Agreement will be made in NZ dollars, regardless of the currency of the relevant Series or Tranche, as applicable, of Covered Bonds.

Each Forward Starting Covered Bond Swap will provide a hedge (after service of a Notice to Pay on the Covered Bond Guarantor) against certain interest rate, currency and/or other risks in respect of amounts received by the Covered Bond Guarantor under the Housing Loans and the Interest Rate Swap and amounts payable by the Covered Bond Guarantor under the Covered Bond Guarantee in respect of the Covered Bonds (after service of a Notice to Pay).

Each Non-Forward Starting Covered Bond Swap will provide a hedge against certain interest rate, currency and/or other risks in respect of amounts received by the Covered Bond Guarantor under the Housing Loans and the Interest Rate Swap and amounts payable by the Covered Bond Guarantor under the related Term Advance (prior to service of a Notice to Pay on the Covered Bond Guarantor) and under the Covered Bond Guarantee in respect of the Covered Bonds (after service of a Notice to Pay on the Covered Bond Guarantor).

Where required to hedge such risks, there will be one (or more) Covered Bond Swap Agreement(s) and Covered Bond Swap(s) in relation to each Series or Tranche, as applicable, of Covered Bonds.

Under the Forward Starting Covered Bond Swaps, the Covered Bond Swap Provider will pay to the Covered Bond Guarantor on each Interest Payment Date (or on the second Business Day following service of a Notice to Pay in the case of the first such Interest Payment Date) after service of a Notice to Pay on the Covered Bond Guarantor, an amount equal to the amounts that are then payable by the Covered Bond Guarantor under the Covered Bond Guarantee in respect of interest payable under the relevant Series of Covered Bonds. In return, the Covered Bond Guarantor will pay to the Covered Bond Swap Provider on each Trust Payment Date after service of a Notice to Pay on the Covered Bond Guarantor an amount in NZ dollars calculated by reference to the 30-day Bank Bill Rate (or the rate for such other period as may be specified in the relevant Confirmation) plus a spread. Unless the Covered Bond Swap terminates earlier, on the first to occur of (i) the date on which the Early Redemption Amount is payable; and (ii) the Final Maturity Date, in each case in relation to the relevant Series of Covered Bonds, the Covered Bond Swap Provider will pay to the Covered Bond Guarantor an amount equal to the Early Redemption Amount or the Final Redemption Amount (as the case may be) of the relevant Series of Covered Bonds in exchange for payment by the Covered Bond Guarantor of the NZ dollar Equivalent of that amount.

Under the Non-Forward Starting Covered Bond Swaps:

- (a) if the related Term Advance is made in NZ dollars, the Covered Bond Guarantor will pay to the Covered Bond Swap Provider on each Trust Payment Date an amount in NZ dollars calculated by reference to the 30-day Bank Bill Rate plus a spread. In return the Covered Bond Swap Provider will pay to the Covered Bond Guarantor, on each Interest Payment Date, an amount in NZ dollars calculated by reference to the 30-day Bank Bill Rate (or the rate for such period as may be specified in the relevant Confirmation) plus a spread; and
- (b) if the related Term Advance is made in a currency other than NZ dollars, on the relevant Issue Date, the Covered Bond Guarantor will pay to the Covered Bond Swap Provider an amount equal to the amount received by the Covered Bond Guarantor under the related Term Advance (being the aggregate nominal amount of such Series or Tranche, as applicable, of Covered Bonds) and in return the Covered Bond Swap Provider will pay to the Covered Bond Guarantor the NZ dollar Equivalent of the first mentioned amount. Thereafter, the Covered Bond Guarantor will pay to the Covered Bond Swap Provider on each Trust Payment Date an amount in NZ dollars calculated by reference to the 30-day Bank Bill Rate plus a spread. In

return, the Covered Bond Swap Provider will pay to the Covered Bond Guarantor, on each Interest Payment Date, an amount in the relevant currency equal to the relevant amount of interest then payable under the related Term Advance in accordance with the Intercompany Loan Agreement. Unless the Covered Bond Swap terminates earlier, on the first to occur of (i) the date on which the Early Redemption Amount is payable; and (ii) the Final Maturity Date, in each case in relation to the relevant Series of Covered Bonds, the Covered Bond Swap Provider will pay to the Covered Bond Guarantor an amount in the relevant currency equal to the principal then outstanding on the related Term Advance in exchange for payment by the Covered Bond Guarantor of the NZ dollar Equivalent of that amount.

Each Covered Bond Swap will terminate on the later of (i) Trust Payment Date that falls on or immediately following the Final Maturity Date for the relevant Series or Tranche of Covered Bonds; and (ii) the date on which all of the relevant Series of Covered Bonds have been repaid or redeemed in full.

Rating Downgrade Event

Under the terms of each Swap Agreement, in the event that the credit rating(s) of the Swap Provider is downgraded by a Rating Agency below the credit rating(s) specified in the relevant Swap Agreement (in accordance with the Rating Agencies' criteria) for that Swap Provider, that Swap Provider agrees, in accordance with the relevant Swap Agreement, to take certain remedial measures which may include:

- (a) providing collateral for its obligations under the Swap Agreement;
- (b) arranging for its obligations under the relevant Swap Agreement to be transferred to a replacement entity provided that either (i) such entity is an entity with the credit ratings specified by the relevant Rating Agency or (ii) the relevant Rating Agency has confirmed that such transfer will not adversely affect the credit ratings of the then outstanding Covered Bonds;
- (c) procuring another entity to become co-obligor or guarantor in respect of its obligations under the Swap Agreement provided that either (i) such entity is an entity with the credit ratings specified by the relevant Rating Agency or (ii) the relevant Rating Agency has confirmed that such co-obligor or guarantor will not adversely affect the credit ratings of the then outstanding Covered Bonds; or
- (d) taking such other action or putting in place such alternative hedging as it may be confirmed by the relevant Rating Agency.

A failure to take such steps within the time periods specified in the Swap Agreement will allow the Covered Bond Guarantor to terminate the Swap Agreement.

Other Termination Events

A Swap Agreement may also be terminated early in certain other circumstances, including but not limited to:

- (a) at the option of any party to the Swap Agreement, if there is a failure by the other party to pay any amounts due under such Swap Agreement within the specified grace period;
- (b) upon the occurrence of an insolvency event in relation to the Swap Provider or the merger of one of the parties to such Swap Agreement without an assumption of the obligations under such Swap Agreement;
- (c) there is a change of law, a change in application of the relevant law or consolidation, amalgamation, merger, transfer of assets, reorganisation, reincorporation or reconstitution of or by a party which results in the Covered Bond Guarantor or the Swap Provider (or both) being obliged to make a withholding or deduction on account of a tax on a payment to be made by such party to the other party under such Swap Agreement and the Swap Provider thereby being required under the terms of such Swap Agreement to gross up payments made to the Covered Bond Guarantor, or to receive net payments from the Covered Bond Guarantor

(who is not required under the terms of such Swap Agreement to gross up payments made to the Swap Provider);

- (d) an event or circumstance occurs which results in the illegality of the obligations to be performed by either party under the Swap Agreement or a force majeure event which renders performance impossible or impracticable;
- (e) in relation to a Covered Bond Swap only, if the corresponding Series of Covered Bonds are redeemed or cancelled;
- (f) the making of an amendment (without the consent of the Swap Provider) to the Priorities of Payments which has a material adverse effect on the amounts paid to the Swap Provider under the Priorities of Payments such that the Covered Bond Guarantor's obligations under the Swap Agreement are further contractually subordinated to its obligations to any other Secured Creditor; and
- (g) the making of an amendment (without the consent of the Swap Provider), such that the Swap Provider would, immediately after such amendment, be required to pay more or receive less under the Swap Agreement than would otherwise have been the case immediately prior to such amendment or such that the Swap Provider would suffer an adverse consequence as a result of such amendment.

Upon the termination of a Swap Agreement, the Covered Bond Guarantor or the Swap Provider may be liable to make a termination payment to the other party in accordance with the provisions of the relevant Swap Agreement.

Swap Agreement Credit Support Document

The Covered Bond Guarantor and each Swap Provider will also enter into a credit support document in the form of the ISDA 1995 Credit Support Annex (Transfer – English law) to the ISDA Master Agreement (the "**Swap Agreement Credit Support Document**") in respect of each Swap Agreement. The Swap Agreement Credit Support Document will provide that, from time to time, if required to do so following its downgrade and subject to the conditions specified in the Swap Agreement Credit Support Document, the relevant Swap Provider will make transfers of collateral to the Covered Bond Guarantor in support of its obligations under the Swap Agreement (the "**Swap Collateral**") and the Covered Bond Guarantor will be obliged to return equivalent collateral in accordance with the terms of the Swap Agreement Credit Support Document. The Swap Agreement Credit Support Document will form a part of the relevant Swap Agreement which (along with any non-contractual obligations arising out of or in connection with the relevant Swap Agreement) will be governed by English law.

Swap Collateral required to be posted by the relevant Swap Provider pursuant to the terms of the Swap Agreement Credit Support Document at present may be delivered in the form of cash only. Cash amounts will be paid into an account designated as a "**Swap Collateral Cash Account**" opened and held with the Account Bank. References to the Swap Collateral Cash Account and to payments from such account are deemed to be a reference to payments from such account as and when opened by the Covered Bond Guarantor.

If the Swap Collateral Cash Account is opened, cash (and all income in respect thereof) transferred as collateral will only be available to be applied in returning collateral (and income thereon) or in satisfaction of amounts owing by the Swap Provider in accordance with the terms of the Swap Agreement Credit Support Document.

Any Swap Collateral Excluded Amounts will be paid to the relevant Swap Provider directly and not via the Priorities of Payments.

Limited Recourse

All obligations of the Covered Bond Guarantor to the relevant Swap Provider under the Swap Agreements are limited in recourse to the Charged Property.

Governing Law

The Swap Agreements and any non-contractual obligations arising out of or in connection with them will be governed by English law.

Account Bank Agreement

Pursuant to the terms of the Account Bank Agreement entered into on the Programme Date between the Covered Bond Guarantor, ANZ New Zealand as Account Bank, Calculation Manager and All Moneys Mortgage Beneficiary, the Trust Manager and the Security Trustee, the Covered Bond Guarantor will maintain with the Account Bank the GIC Account described below, the Transaction Accounts and the Swap Collateral Cash Account, which will be operated in accordance with the Management Agreement, the Establishment Deed, the Security Deed and the relevant Swap Agreements.

Pursuant to the terms of the Account Bank Agreement, the Covered Bond Guarantor will maintain in its name, but in its capacity as All Moneys Mortgages Trustee, with the Account Bank a further bank account (the "**All Moneys Mortgage Trust Account**"). The All Moneys Mortgage Trustee will deposit, on its receipt, the proceeds of enforcement of any All Moneys Mortgage which constitutes All Moneys Mortgage Trust Property in the All Moneys Mortgage Trust Account in accordance with the Mortgage Sale Agreement.

The Covered Bond Guarantor or the Security Trustee may, upon written notice to the Account Bank, terminate the appointment of the Account Bank if the following matters occur:

- (a) if a deduction or withholding for or on account of any Tax is imposed, or it appears likely that such a deduction or withholding will be imposed, in respect of the interest payable on any Trust Account, as applicable; or
- (b) if the Account Bank fails to make payment on the due date of any payment due and payable by it under the Account Bank Agreement and such default is not waived by the Covered Bond Guarantor (with the prior written consent of the Security Trustee) or the Security Trustee, as applicable, and such default continues unremedied for a period of five Local Business Days; or
- (c) if the Account Bank fails to perform any of its other material obligations under the Account Bank Agreement, the Security Deed or any other Programme Document to which it is a party which is, in the opinion of the Security Trustee, materially prejudicial to the holders of Covered Bonds (and such failure is not waived by the Covered Bond Guarantor with the prior written consent of the Security Trustee) and such failure remains unremedied for a period of ten Local Business Days after the Trust Manager or the Security Trustee has given notice of such failure to the Account Bank.

The Covered Bond Guarantor or the Security Trustee shall, upon written notice to the Account Bank, terminate the appointment of the Account Bank if the following matters occur:

- (a) if the Account Bank ceases to be a Qualified Institution and the Account Bank does not, within 30 days of the occurrence of such event, obtain a guarantee of its obligations under the Account Bank Agreement from a Qualified Institution; or
- (b) if an Insolvency Event occurs in respect of the Account Bank.

The Account Bank Agreement is governed by New Zealand law.

Security Deed

Pursuant to the terms of the Security Deed entered into on the Programme Date by the Covered Bond Guarantor, the Trust Manager, the Bond Trustee, the Security Trustee and the other Secured Creditors, as security for payment of the Secured Obligations, the Covered Bond Guarantor:

- (a) grants a security interest in all of its present and after acquired right, title and interest in the assets of the Trust which comprise present and after-acquired personal property to which the PPSA applies ("**Charged Personal Property**") in favour of the Security Trustee; and

- (b) charges all of its present and future right, title and interest in, and all of its present and future rights in relation to, any assets of the Trust which are land and any other property other than any Charged Personal Property ("**Charged Other Property**"), in favour of the Security Trustee.

The Security is a fixed charge in respect of all Charged Other Property except where, but only to the extent that, the Security is not legally and fully effective as a fixed charge, in which event the Security shall be a floating charge. Any floating charge shall become a fixed charge automatically and immediately in respect of all Charged Other Property subject to the floating charge:

- (a) without the need for any notice to or act by the Security Trustee, following the service of a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor; and
- (b) in respect of any such Charged Other Property specified in any notice which may be given by the Security Trustee to the Covered Bond Guarantor and the Trust Manager at any time if, in the opinion of the Security Trustee, that Charged Other Property is at risk of being seized or taken or becoming subject to any Security Interest other than any Security Interest expressly permitted under the Programme Documents.

Release of Security

In the event of any sale of Housing Loans (including Selected Housing Loans) and the Related Security by or on behalf of the Covered Bond Guarantor pursuant to and in accordance with the Programme Documents, the Security Trustee will, on the date of such sale (subject to the written request of the Covered Bond Guarantor or the Trust Manager on its behalf), take all reasonable steps necessary to release those Housing Loans and the Related Security from the Security created by and pursuant to the Security Deed, only if:

- (a) the Security Trustee provides its prior written consent to the terms of such sale as described under "*Establishment Deed – Method of Sale of Selected Housing Loans*" above; and
- (b) in the case of the sale of Selected Housing Loans, the Trust Manager provides to the Security Trustee a certificate confirming that the Selected Housing Loans being sold have been selected on a basis that is representative of the Housing Loans in the Housing Loan Portfolio as a whole.

In the event of the repurchase of a Housing Loan and its Related Security by the Seller pursuant to and in accordance with the Programme Documents, the Security Trustee will, on the date of the repurchase, release that Housing Loan and the Related Security from the Security created by and pursuant to the Security Deed.

Enforcement

If a Covered Bond Guarantee Acceleration Notice is served on the Covered Bond Guarantor, the Security Trustee shall be entitled to appoint a Receiver, and/or enforce the Security constituted by the Security Deed (including selling the Housing Loan Portfolio), and/or take such steps as it shall deem necessary, subject in each case to being indemnified and/or prefunded and/or secured to its satisfaction. All proceeds received by the Security Trustee from the enforcement or realisation of the Security will be applied in accordance with the Post-Enforcement Priority of Payments described under "*Cashflows*" below.

The Security Deed is governed by New Zealand law.

CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured and unconditional obligations of the Relevant Issuer (and the Guarantor if ANZNIL is the Issuer). The Covered Bond Guarantor has no obligation to pay the Guaranteed Amounts under the Covered Bond Guarantee until the occurrence of (i) an Issuer Event of Default and service by the Bond Trustee on the Issuers and the Guarantor of an Issuer Acceleration Notice and the service on the Covered Bond Guarantor of a Notice to Pay or, (ii) if earlier, following the occurrence of a Covered Bond Guarantor Event of Default, and the service by the Bond Trustee on the Covered Bond Guarantor, the Issuers and the Guarantor of a Covered Bond Guarantee Acceleration Notice. Neither the Issuers nor the Guarantor will be relying on any payments by the Covered Bond Guarantor in order to pay interest or repay principal under the Covered Bonds or amounts under the Guarantee (in the case of Covered Bonds issued by ANZNIL).

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate payments to Covered Bondholders, as follows:

- (a) the Covered Bond Guarantee provides credit support to the Relevant Issuer and the Guarantor (if ANZNIL is the Issuer);
- (b) the Pre-Maturity Test is intended to provide liquidity to the Covered Bond Guarantor in relation to amounts of principal due on the Final Maturity Date of the Hard Bullet Covered Bonds;
- (c) the Asset Coverage Test is intended to test the asset coverage of the Covered Bond Guarantor's assets in respect of the Covered Bonds on a monthly basis;
- (d) the Amortisation Test is intended to test the asset coverage of the Covered Bond Guarantor's assets in respect of the Covered Bonds following the service of a Notice to Pay on the Covered Bond Guarantor;
- (e) a Reserve Fund will be established in the GIC Account to trap Available Revenue Receipts if the credit ratings of ANZ New Zealand's short-term, unsecured, unsubordinated and unguaranteed obligations fall below F1+ by Fitch or below P-1 by Moody's; and
- (f) under the terms of the Account Bank Agreement, the Account Bank has agreed to pay a rate of interest per annum equal to the 30-day Bank Bill Rate (which shall be the rate determined by the Account Bank on each Determination Date or, in the case of the first Collection Period, the First Transfer Date) on all amounts held by the Covered Bond Guarantor in the GIC Account.

Certain of these factors are considered more fully in the remainder of this section.

Covered Bond Guarantee

Pursuant to the terms of the Bond Trust Deed, the Covered Bond Guarantor has guaranteed payments of interest and principal under the Covered Bonds issued by the Issuers. The Covered Bond Guarantor has agreed to pay an amount equal to the Guaranteed Amounts when the same shall become Due for Payment but which would otherwise be unpaid by the Relevant Issuer and the Guarantor (in the case of Covered Bonds issued by ANZNIL). The obligations of the Covered Bond Guarantor under the Covered Bond Guarantee constitute direct, unconditional (following service of a Notice to Pay or a Covered Bond Guarantee Acceleration Notice) and unsubordinated obligations of the Covered Bond Guarantor, secured as provided in the Security Deed. The Bond Trustee will be required to serve a Notice to Pay on the Covered Bond Guarantor following the occurrence of an Issuer Event of Default (whereupon the Covered Bonds will become immediately due and payable as against the Relevant Issuer (and the Guarantor if ANZNIL is the Issuer) but not at such time as against the Covered Bond Guarantor).

A Covered Bond Guarantee Acceleration Notice may be served by the Bond Trustee on the Relevant Issuer, the Guarantor (if ANZNIL is the Issuer) and the Covered Bond Guarantor following the occurrence of a Covered Bond Guarantor Event of Default. If a Covered Bond Guarantee Acceleration Notice is served, the Covered Bonds will become immediately due and payable (if they have not already become due and payable) and the obligations of the Covered Bond Guarantor under the Covered Bond Guarantee will be accelerated and the Security Trustee will be entitled to enforce the

Security. Payments made by the Covered Bond Guarantor under the Covered Bond Guarantee will be made subject to, and in accordance with, the Guarantee Priority of Payments. All Moneys received or recovered by the Security Trustee or any Receiver after the service of a Covered Bond Guarantee Acceleration Notice and/or the commencement of winding up proceedings against the Trust and/or realisation of the Security shall be held by it in the Trust Accounts on trust to be applied in accordance with the Post-Enforcement Priority of Payments.

See further "*Summary of the Principal Documents – Bond Trust Deed*" as regards the terms of the Covered Bond Guarantee.

See further "*Cashflows – Guarantee Priority of Payments*" as regards the payment of amounts payable by the Covered Bond Guarantor to Covered Bondholders and other Secured Creditors following service of a Notice to Pay.

Pre-Maturity Test

Each Series of Hard Bullet Covered Bonds is subject to a Pre-Maturity Test on each Local Business Day during the Pre-Maturity Test Period prior to the occurrence of an Issuer Event of Default and/or a Covered Bond Guarantor Event of Default. The Pre-Maturity Test will be breached in relation to a Series of Hard Bullet Covered Bonds if ANZ New Zealand's short-term credit rating from Moody's falls to P-2 (or lower) or from Fitch falls to F1 (or lower) and the Final Maturity Date of the Series of Hard Bullet Covered Bonds falls within 12 months from the relevant Pre-Maturity Test Date. If the Pre-Maturity Test is breached within such specified period and certain actions are not taken, an Issuer Event of Default will occur.

Asset Coverage Test

The Asset Coverage Test is intended to test the asset coverage of the Covered Bond Guarantor's assets in respect of the Covered Bonds on a monthly basis. This is to ensure that the assets of the Covered Bond Guarantor do not fall below a certain threshold and are sufficient for the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee and senior expenses which rank in priority or *pari passu* with amounts due on the Covered Bonds.

The Establishment Deed provides that, prior to the service of a Notice to Pay on the Covered Bond Guarantor, the assets of the Covered Bond Guarantor are subject to the Asset Coverage Test. Accordingly, for so long as Covered Bonds remain outstanding, the Covered Bond Guarantor must ensure that on each Determination Date prior to the service of a Notice to Pay, the Adjusted Aggregate Housing Loan Amount is in an amount at least equal to the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds from time to time. The Asset Coverage Test will be tested by the Calculation Manager on each Determination Date.

Pursuant to the terms of the Mortgage Sale Agreement, the Seller has agreed to use all reasonable endeavours to offer to sell Housing Loans and the Related Security to the Covered Bond Guarantor in order to ensure that the Housing Loan Portfolio is in compliance with the Asset Coverage Test. The consideration payable to the Seller for the sale of such Housing Loans and Related Security to the Covered Bond Guarantor to rectify a breach of the Asset Coverage Test will be funded by a drawing under the Demand Loan Agreement.

Alternatively, the Covered Bond Guarantor may purchase Substitution Assets or request drawings under the Demand Loan Agreement (as directed by the Trust Manager) in order to ensure that the Covered Bond Guarantor is in compliance with the Asset Coverage Test.

If the Adjusted Aggregate Housing Loan Amount is less than the NZ dollar Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds on a Determination Date and also on the next following Determination Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the Covered Bond Guarantor (subject to the Bond Trustee having actual knowledge or express notice of the breach). The Bond Trustee shall be deemed to revoke an Asset Coverage Test Breach Notice if, on the next Determination Date to occur following the service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is subsequently satisfied and neither a Notice to Pay nor a Covered Bond Guarantee Acceleration Notice has been served. If the

Asset Coverage Test Breach Notice is not revoked on the next Determination Date after service of such Asset Coverage Test Breach Notice an Issuer Event of Default will occur.

See further "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test*" above.

Amortisation Test

The Amortisation Test is intended to ensure that, following service of a Notice to Pay, the assets of the Covered Bond Guarantor do not fall below a certain threshold to ensure that the assets of the Covered Bond Guarantor are sufficient to meet its obligations under the Covered Bond Guarantee and senior expenses which rank in priority to or *pari passu* with amounts due on the Covered Bonds.

Pursuant to the Establishment Deed, the Covered Bond Guarantor must ensure that on each Determination Date following service of a Notice to Pay on the Covered Bond Guarantor but prior to the enforcement of the Security in accordance with the Security Deed, the Amortisation Test Aggregate Housing Loan Amount is in an amount at least equal to the NZ dollar Equivalent of the aggregate Principal Amount Outstanding under the Covered Bonds.

See further "*Summary of the Principal Documents – Establishment Deed – Amortisation Test*" above.

Reserve Fund

The Covered Bond Guarantor is required to establish a reserve fund with the GIC Account which will be credited with the proceeds of Available Revenue Receipts or a Term Advance up to an amount equal to the Reserve Fund Required Amount in accordance with the applicable Priority of Payments.

If ANZ New Zealand's short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least P-1 by Moody's and F1+ by Fitch, the Reserve Fund Required Amount will be nil or such other amount as ANZ New Zealand shall advise the Covered Bond Guarantor from time to time and otherwise, an amount equal to:

- (a) the higher of the NZ dollar Equivalent of the interest:
 - (i) that will accrue on each Series of Covered Bonds from (and including) that date to (but excluding) the date falling three months after such date; and
 - (ii) due for payment on each Series of Covered Bonds from (and including) that date to (but excluding) the date falling three months after such date; and
- (b) an amount equal to one-quarter of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (a) to (c) of the Pre-Acceleration Revenue Priority of Payments.

See "*Cashflows—Pre-Acceleration Revenue Priority of Payments*" below.

CASHFLOWS

As described above under Credit Structure, until a Notice to Pay or Covered Bond Guarantee Acceleration Notice is served on the Covered Bond Guarantor, the Covered Bonds will be obligations of the Relevant Issuer (and the Guarantor if ANZNIL is the Issuer) only. The Relevant Issuer (or the Guarantor if ANZNIL is the Issuer) are liable to make payments when due on the Covered Bonds, whether or not ANZ New Zealand has received any corresponding payment from the Covered Bond Guarantor.

This section summarises the Priorities of Payments of the Covered Bond Guarantor as to the allocation and distribution of amounts standing to the credit of the GIC Account or the Transaction Accounts (if applicable) and their order of priority:

- (a) prior to the service of a Notice to Pay or a Covered Bond Guarantee Acceleration Notice and/or commencement of winding up proceedings against the Trust and/or realisation of the Security;
- (b) following service of a Notice to Pay (but prior to the service of a Covered Bond Guarantee Acceleration Notice and/or commencement of winding up proceedings against the Trust and/or realisation of the Security); and
- (c) following the service of a Covered Bond Guarantee Acceleration Notice and/or commencement of winding up proceedings against the Trust and/or realisation of the Security,

all in accordance with the Establishment Deed and Security Deed, as applicable.

Allocation and distribution of Available Revenue Receipts prior to the service of a Notice to Pay, or a Covered Bond Guarantee Acceleration Notice and/or the commencement of winding up proceedings against the Trust and/or the realisation of the Security

Prior to the service of a Notice to Pay or a Covered Bond Guarantee Acceleration Notice and/or the commencement of winding up proceedings against the Trust and/or realisation of the Security, Available Revenue Receipts standing to the credit of the Transaction Accounts shall be allocated and distributed as described below.

On the Determination Date immediately preceding each Trust Payment Date, the Covered Bond Guarantor, or the Trust Manager on its behalf, shall calculate:

- (a) the amount of Available Revenue Receipts available for distribution on the following Trust Payment Date;
- (b) the Reserve Fund Required Amount if applicable; and
- (c) if the Pre-Maturity Test has been breached in respect of a Series of Hard Bullet Covered Bonds, on each Determination Date falling within the Pre-Maturity Test Period and ending on the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds, whether or not the amount standing to the credit of the Pre-Maturity Ledger at such date is less than the NZ dollar Equivalent of the Required Redemption Amount for each Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test has been breached at such date.

If the Covered Bond Guarantor has been so directed by the Trust Manager on each Trust Payment Date the Covered Bond Guarantor shall transfer funds from the GIC Account to the Transaction Accounts in an amount equal to the lower of (a) the amount required to make the payments or credits described below and (b) the amount of Available Revenue Receipts standing to the credit of the GIC Account.

Pre-Acceleration Revenue Priority of Payments

On each Trust Payment Date (except for amounts due to third parties by the Covered Bond Guarantor described below under paragraph (a), which in each case shall be paid when due and except for Swap Collateral Excluded Amounts due to the Swap Provider by the Covered Bond Guarantor under the relevant Swap Agreement, which shall be paid directly to the relevant Swap Provider), the Covered Bond Guarantor, acting on the direction of the Trust Manager, will apply Available Revenue Receipts

from the Transaction Accounts or the GIC Account (if the Trust Manager has not directed the Covered Bond Guarantor to transfer funds to the Transaction Accounts in accordance with the Establishment Deed) to make the following payments and provisions in the following order of priority ("**Pre-Acceleration Revenue Priority of Payments**") (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction of any amounts due and payable by the Covered Bond Guarantor to itself as trustee of the Trust, the Bond Trustee and the Security Trustee, any remuneration due and payable to each Agent under the provisions of the Principal Agency Agreement and any amounts due and payable to other third parties and incurred without breach by the Covered Bond Guarantor of the Programme Documents to which it is a party (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments) and to provide for any such amounts expected to become due and payable by the Covered Bond Guarantor in the Trust Payment Period in which such Trust Payment Date occurs and to discharge any liability of the Covered Bond Guarantor for Taxes;
- (b) *second*, in or towards satisfaction, pro rata and *pari passu* according to the respective amounts thereof, of:
 - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement in the Trust Payment Period in which such Trust Payment Date occurs, together with any applicable GST (or other similar Taxes) thereon;
 - (ii) any remuneration then due and payable to the Calculation Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Calculation Manager under the provisions of the Management Agreement in the Trust Payment Period in which such Trust Payment Date occurs, together with any applicable GST (or other similar Taxes) thereon;
 - (iii) amounts (if any) due and payable to the Account Bank (including costs) pursuant to the terms of the Account Bank Agreement, together with any applicable GST (or other similar Taxes) thereon;
 - (iv) amounts due and payable to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in paragraph (i) below), together with any applicable GST (or other similar Taxes) thereon; and
 - (v) any remuneration then due and payable to the Trust Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Trust Manager pursuant to the Establishment Deed and the Management Agreement in the Trust Payment Period in which such Trust Payment Date occurs, together with any applicable GST (or other similar Taxes) thereon;
- (c) *third*, in or towards payment on the Trust Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Trust Manager may reasonably determine, of any amount due or to become due and payable to the Interest Rate Swap Provider in respect of the Interest Rate Swap (including any termination payment due and payable by the Covered Bond Guarantor under the Interest Rate Swap but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premium received from any replacement Interest Rate Swap Provider) pursuant to the terms of the Interest Rate Swap Agreement;
- (d) *fourth*, in or towards payment on the Trust Payment Date or to provide for payment on such date in the future of such proportion of the relevant payments falling due in the future as the Trust Manager may reasonably determine, pro rata and *pari passu* according to the respective amounts thereof, of:
 - (i) any amounts due or to become due and payable to the Covered Bond Swap Provider (other than in respect of principal) pro rata and *pari passu* in respect of each relevant

Covered Bond Swap (including any termination payment due and payable (other than in respect of principal) by the Covered Bond Guarantor under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from any relevant replacement Covered Bond Swap Provider) in accordance with the terms of the relevant Covered Bond Swap Agreement; and

- (ii) any amounts due or to become due and payable (excluding principal amounts) to the Intercompany Loan Provider pro rata and *pari passu* in respect of each Term Advance pursuant to the terms of the Intercompany Loan Agreement, but in the case of any such payment, after taking into account any amounts (other than principal) receivable from the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the Trust Payment Date or such date in the future as the Calculation Manager may reasonably determine,

but, in the case of any such payment or provision, after taking into account any amounts receivable from the Interest Rate Swap Provider under the Interest Rate Swap Agreement and, if applicable, any amounts (other than principal) receivable from the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the Trust Payment Date or such date in the future as the Trust Manager may reasonably determine;

- (e) *fifth*, if the Covered Bond Guarantor, or the Trust Manager on its behalf, is required to credit the Pre-Maturity Ledger following a breach of the Pre-Maturity Test, on the Trust Payment Date in or towards a credit to the Pre-Maturity Ledger and deposit into the GIC Account of an amount equal to (i) the NZ dollar Equivalent of the Required Redemption Amount for each Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test has been breached calculated as at the immediately preceding Determination Date, less (ii) any amounts standing to the credit of the Pre-Maturity Ledger as at the immediately preceding Determination Date;
- (f) *sixth*, in or towards a credit to the Reserve Ledger and deposit into the GIC Account of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Determination Date;
- (g) *seventh*, if a Servicer Termination Event has occurred, all remaining Available Revenue Receipts to be deposited into the GIC Account (with a corresponding credit to the Revenue Ledger) until such Servicer Termination Event is either remedied by the Servicer or waived by the Security Trustee (acting on the directions of the Bond Trustee or, if no Covered Bonds are outstanding, the Majority Secured Creditors) or a replacement servicer is appointed to service the Housing Loan Portfolio (or the relevant part thereof);
- (h) *eighth*, in or towards payment pro rata and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the Covered Bond Guarantor under the Swap Agreements, except to the extent such amounts have been paid out of any premiums received from any relevant replacement Swap Provider;
- (i) *ninth*, in or towards payment of any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement;
- (j) *tenth*, any interest amount due, or to become due and payable in respect of the Demand Loan, to the Demand Loan Provider pursuant to the terms of the Demand Loan Agreement;
- (k) *eleventh*, in or towards payment of the Deferred Consideration then due and payable to the Seller for the transfer of the Housing Loans and the Related Security to the Covered Bond Guarantor; and
- (l) *twelfth*, the remainder:
 - (i) subject to subparagraph (ii) below:

- (A) except for the Trust Payment Date that occurs on or immediately after the day on which the Net Annual Income of the Trust for a Fiscal Period has vested absolutely in the Residual Income Beneficiary in accordance with the Establishment Deed, to be deposited into the GIC Account (with a corresponding credit to the Residual Income Beneficiary Ledger); and
 - (B) on the Trust Payment Date that occurs on or immediately after the day on which the Net Annual Income of the Trust for a Fiscal Period has vested absolutely in the Residual Income Beneficiary in accordance with the Establishment Deed, to the Residual Income Beneficiary by way of distribution of the Net Annual Income of the Trust which has vested absolutely in the Residual Income Beneficiary (with a corresponding debit to the Residual Income Beneficiary Ledger); and
- (ii) to the extent the Covered Bond Guarantor, or the Trust Manager on its behalf, is not satisfied that the Residual Income Beneficiary has paid or made provision for payment of income tax (if any) in respect of the income of the Trust and distributions made or to be made under this paragraph (l), to be deposited into the GIC Account (with a corresponding credit to the Residual Income Beneficiary Ledger) and either:
- (A) paid to the Commissioner of the IRD to meet any unpaid income tax liability in respect of the income of the Trust and distribution of income of the Trust; or
 - (B) upon being satisfied that the Residual Income Beneficiary has paid or made provision for payment of income tax (if any) in respect of the income of the Trust and distributions made or to be made under this paragraph (l), paid to the Residual Income Beneficiary by way of distribution of the income of the Trust (with a corresponding debit to the Residual Income Beneficiary Ledger).

Allocation and distribution of Available Revenue Receipts following service of an Asset Coverage Test Breach Notice

At any time after service on the Covered Bond Guarantor of an Asset Coverage Test Breach Notice (which has not been revoked), but prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of a Covered Bond Guarantor Event of Default and service of a Covered Bond Guarantee Acceleration Notice and/or the commencement of winding up proceedings against the Trust and/or realisation of the Security, all Available Revenue Receipts will continue to be applied in accordance with the Pre-Acceleration Revenue Priority of Payments save that, whilst any Covered Bonds remain outstanding, no moneys will be applied under paragraph (d)(ii), (j), (k) or (l) of the Pre-Acceleration Revenue Priority of Payments, and the remainder (if any) will be deposited into the GIC Account (with a corresponding credit to the Revenue Ledger) and applied as Available Revenue Receipts on the next succeeding Trust Payment Date.

Allocation and Distribution of Available Principal Receipts prior to service of a Notice to Pay, or a Covered Bond Guarantee Acceleration Notice and/or the commencement of winding up proceedings against the Trust and/or the realisation of the Security

Prior to the service of a Notice to Pay or a Covered Bond Guarantee Acceleration Notice and/or the commencement of winding up proceedings against the Trust and/or the realisation of the Security, Available Principal Receipts standing to the credit of the GIC Account or the Transaction Accounts (if applicable) shall be allocated and distributed as described below.

On each Determination Date, the Covered Bond Guarantor, or the Trust Manager on its behalf, shall calculate the amount of Available Principal Receipts available for distribution on the immediately following Trust Payment Date.

If the Covered Bond Guarantor has been so directed by the Trust Manager, on each Trust Payment Date, the Covered Bond Guarantor will transfer funds from the GIC Account to the Transaction Accounts in an amount equal to the lower of (a) the amount required to make the payments or credits described below and (b) the amount of all Available Principal Receipts standing to the credit of the GIC Account.

Pre-Acceleration Principal Priority of Payments

On each Trust Payment Date, the Covered Bond Guarantor, acting on the directions of the Trust Manager, will apply Available Principal Receipts from the Transaction Accounts or the GIC Account (if the Trust Manager has not directed the Covered Bond Guarantor to transfer funds to the Transaction Accounts in accordance with the Establishment Deed) (other than Swap Collateral Excluded Amounts due to the Swap Provider by the Covered Bond Guarantor under the relevant Swap Agreement which shall be paid directly to the relevant Swap Provider in accordance with the terms of the relevant Swap Agreement) in making the following payments or provisions or credits in the following order or priority ("**Pre-Acceleration Principal Priority of Payments**") (in each case only if and to the extent that payments or provisions of a higher priority have been paid in full to the extent the same are payable on the relevant Trust Payment Date):

- (a) *first*, if the Covered Bond Guarantor, or the Trust Manager on its behalf, is required to credit the Pre-Maturity Ledger on the Trust Payment Date, in or towards a credit to the Pre-Maturity Ledger and deposit into the GIC Account of an amount equal to (A) the NZ dollar Equivalent of the Required Redemption Amount for each Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test has been breached calculated as at the immediately preceding Determination Date, less (B) any amounts standing to the credit of the Pre-Maturity Ledger as at the immediately preceding Determination Date;
- (b) *second*, to acquire New Housing Loans and the Related Security offered to the Covered Bond Guarantor by the Seller in accordance with the terms of the Mortgage Sale Agreement and/or to acquire Substitution Assets up to a prescribed limit in an amount sufficient to ensure that taking into account the other resources available to the Covered Bond Guarantor, the Covered Bond Guarantor is in compliance with the Asset Coverage Test;
- (c) *third*, to deposit the remaining Available Principal Receipts into the GIC Account (with a corresponding credit to the Principal Ledger) in an amount sufficient to ensure that, taking into account the other resources available to the Covered Bond Guarantor, the Covered Bond Guarantor is in compliance with the Asset Coverage Test;
- (d) *fourth*, in or towards repayment on the Trust Payment Date (or to provide for repayment on such date in the future of such proportion of the relevant payment falling due in the future as the Trust Manager may reasonably determine) of each relevant Term Advance by making the following payments:
 - (i) the amounts (in respect of principal) due or to become due and payable to the Covered Bond Swap Provider pro rata and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment (relating solely to principal) due and payable by the Covered Bond Guarantor under the Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from any replacement Swap Provider) in accordance with the terms of the Covered Bond Swap Agreement; and
 - (ii) where appropriate, after taking into account any amounts in respect of principal receivable from a Covered Bond Swap Provider on the Trust Payment Date or such date in the future as the Trust Manager may reasonably determine, the amounts (in respect of principal) due and payable or to become due and payable to the Intercompany Loan Provider pro rata and *pari passu* in respect of each relevant Term Advance;
- (e) *fifth*, to:
 - (i) pay the Purchase Price for New Housing Loans and the Related Security sold to the Covered Bond Guarantor in accordance with the Mortgage Sale Agreement following receipt by the Seller of a notice from the Covered Bond Guarantor; and
 - (ii) pay to the Seller the Purchase Price of any Further Advances and/or to reimburse the Seller for funding any Cash Redraws that the Covered Bond Guarantor has agreed may

remain in the Housing Loan Portfolio in accordance with the Mortgage Sale Agreement;

- (f) *sixth*, to repay such amount of the principal outstanding on the Demand Loan that is due or to become due and payable to the Demand Loan Provider pursuant to the terms of the Demand Loan Agreement, to the extent that such payment would not cause the Asset Coverage Test to be breached;
- (g) *seventh*, if the principal balance of the Demand Loan is zero, in or towards payment of the Deferred Consideration then due to the Seller for the transfer of the Housing Loans and the Related Security to the Covered Bond Guarantor; and
- (h) *eighth*, to deposit the remaining Available Principal Receipts into the GIC Account.

Allocation and distribution of Available Principal Receipts following service of an Asset Coverage Test Breach Notice

At any time after the service on the Covered Bond Guarantor of an Asset Coverage Test Breach Notice (which has not been revoked), but prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of a Covered Bond Guarantor Event of Default and service of a Covered Bond Guarantee Acceleration Notice and/or the commencement of winding up proceedings against the Trust and/or realisation of the Security, all Available Principal Receipts will continue to be applied in accordance with the Pre-Acceleration Principal Priority of Payments save that, whilst any Covered Bonds remain outstanding, no moneys will be applied under paragraph (b) of the Pre-Acceleration Principal Priority of Payments, and the remainder (if any) will be deposited into the GIC Account (with a corresponding credit to the Principal Ledger) and applied as Available Principal Receipts on the next succeeding Trust Payment Date.

Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of a Notice to Pay

At any time after the service of a Notice to Pay on the Covered Bond Guarantor, but prior to service of a Covered Bond Guarantee Acceleration Notice and/or the commencement of winding up proceedings against the Trust and/or the realisation of the Security, all Available Revenue Receipts and Available Principal Receipts will be applied as described below.

If the Covered Bond Guarantor has been so directed by the Trust Manager, on each Trust Payment Date, the Covered Bond Guarantor will transfer funds from the GIC Account to the Transaction Accounts, in an amount equal to the lower of (a) the amount required to make the payments set out in the Guarantee Priority of Payments, as described below and (b) the amount of all Available Revenue Receipts and Available Principal Receipts standing to the credit of the GIC Account.

The Covered Bond Guarantor, or the Trust Manager on its behalf, will create and maintain ledgers for each Series of Hard Bullet Covered Bonds and record amounts allocated to such Series of Hard Bullet Covered Bonds, and such amounts, once allocated, will only be available to pay amounts due under the Covered Bond Guarantee and amounts due under the relevant Covered Bond Swap in respect of the relevant Series of Hard Bullet Covered Bonds on the scheduled repayment dates thereof.

If a Notice to Pay has been served on the Covered Bond Guarantor, on the Final Maturity Date of a Series of Hard Bullet Covered Bonds, the Covered Bond Guarantor, acting on the direction of the Trust Manager, shall apply all moneys (if any) standing to the credit of the Pre-Maturity Ledger (and transferred from the GIC Account to the Transaction Accounts) to repay the relevant Series.

Guarantee Priority of Payments

On each Trust Payment Date (except for amounts due to third parties described below under (b)(ii) which in each case shall be paid when due, and except for Swap Collateral Excluded Amounts due to the Swap Provider by the Covered Bond Guarantor under the relevant Swap Agreement which shall be paid directly to the relevant Swap Provider) the Covered Bond Guarantor, acting on the direction of the Trust Manager, will apply Available Revenue Receipts and Available Principal Receipts to make the following payments and provisions in the following order of priority ("**Guarantee Priority of**

Payments") (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof of:
 - (i) all amounts due and payable or to become due and payable to the Bond Trustee (excluding all amounts otherwise payable to the Covered Bondholders, Receiptholders and Couponholders under the Guarantee Priority of Payments) in the Trust Payment Period in which such Trust Payment Date occurs under the provisions of the Bond Trust Deed together with interest and any applicable GST (or other similar Taxes) thereon;
 - (ii) all amounts due and payable or to become due and payable to the Security Trustee (excluding all amounts otherwise payable to the Covered Bondholders, Receiptholders and Couponholders under the Guarantee Priority of Payments) in the Trust Payment Period in which such Trust Payment Date occurs under the provisions of the Security Deed together with interest and any applicable GST (or other similar Taxes) thereon;
 - (iii) all amounts due and payable or to become due and payable to itself as trustee of the Trust in the Trust Payment Period in which such Trust Payment Date occurs under the Establishment Deed together with interest and any applicable GST (or other similar Taxes) thereon;
- (b) *second*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof of:
 - (i) any remuneration then due and payable to the Agents under the provisions of the Principal Agency Agreement together with any applicable GST (or other similar Taxes) thereon; and
 - (ii) any amounts then due and payable by the Covered Bond Guarantor to third parties and incurred without breach by the Covered Bond Guarantor of the Programme Documents to which it is a party (and for which payment has not been provided for elsewhere in this Guarantee Priority of Payments) and to provide for any such amounts expected to become due and payable by the Covered Bond Guarantor in the Trust Payment Period in which such Trust Payment Date occurs and to pay or discharge any liability of the Covered Bond Guarantor for Taxes;
- (c) *third*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof of:
 - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the Trust Payment Period in which such Trust Payment Date occurs under the provisions of the Servicing Agreement together with any applicable GST (or other similar Taxes) thereon;
 - (ii) any remuneration then due and payable to the Calculation Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Calculation Manager in the Trust Payment Period in which such Trust Payment Date occurs under the provisions of the Management Agreement, together with any applicable GST (or other similar Taxes) thereon;
 - (iii) amounts (if any) due and payable to the Account Bank (including costs) pursuant to the terms of the Account Bank Agreement, together with any applicable GST (or other similar Taxes) thereon;
 - (iv) amounts due and payable to the Trust Manager under the Establishment Deed and the Management Agreement, together with any applicable GST (or other similar Taxes) thereon; and

- (v) amounts due and payable to the Asset Monitor (other than the amounts referred to in paragraph (k) below) pursuant to the terms of the Asset Monitor Agreement, together with any applicable GST (or other similar Taxes) thereon;
- (d) *fourth*, in or towards payment on the Trust Payment Date, or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Trust Manager may reasonably determine, of any amount due or to become due and payable to the Interest Rate Swap Provider in respect of the Interest Rate Swap (including any termination payment due and payable by the Covered Bond Guarantor under the Interest Rate Swap but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from any replacement Interest Rate Swap Provider) in accordance with the terms of the Interest Rate Swap Agreement;
- (e) *fifth*, in or towards payment on the Trust Payment Date or to provide for payment on such date in the future of such proportion of the relevant payments falling due in the future as the Trust Manager may reasonably determine, pro rata and *pari passu* according to the respective amounts thereof, of:
 - (i) any amounts due or to become due and payable to the Covered Bond Swap Provider (other than in respect of principal) pro rata and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable (other than in respect of principal) by the Covered Bond Guarantor under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from any relevant replacement Covered Bond Swap Provider) in accordance with the terms of the Covered Bond Swap Agreement; and
 - (ii) Scheduled Interest that is Due for Payment (or that will become Due for Payment in the Trust Payment Period in which such Trust Payment Date occurs) under the Covered Bond Guarantee in respect of each Series of Covered Bonds to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders, Receiptholders and Couponholders pro rata and *pari passu* in respect of each Series of Covered Bonds,

but, in the case of any such payment or provision, after taking into account any amounts receivable from the Interest Rate Swap Provider under the Interest Rate Swap Agreement and, if applicable, any amounts (other than principal) receivable from the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the Trust Payment Date or such date in the future as the Trust Manager may reasonably determine, provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received or to be received from the Covered Bond Swap Provider) would be insufficient to pay the NZ dollar Equivalent of the Scheduled Interest that is or will be Due for Payment in respect of each Series of Covered Bonds under sub-paragraph (ii) above, the shortfall will be divided amongst all such Series of Covered Bonds on a pro rata and *pari passu* basis and the amount payable by the Covered Bond Guarantor to the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement in respect of each relevant Series of Covered Bonds or provision to be made in respect thereof under sub-paragraph (i) above will be correspondingly reduced to take into account the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (f) *sixth*, in or towards payment on the Trust Payment Date or to provide for payment in the immediately succeeding Trust Payment Period, pro rata and *pari passu* according to the respective amounts thereof of:
 - (i) any amounts (in respect of principal) due or to become due and payable to any Covered Bond Swap Provider pro rata and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable (in respect of principal) by the Covered Bond Guarantor under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from any relevant replacement

Covered Bond Swap Provider) in accordance with the terms of the Covered Bond Swap Agreement; and

- (ii) (where appropriate, after taking into account any amounts in respect of principal receivable from the Covered Bond Swap Provider and available to make payments in respect thereof) Scheduled Principal that is Due for Payment (or that will become Due for Payment in the immediately succeeding Trust Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders pro rata and *pari passu* in respect of each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (f) (excluding any amounts received or to be received from the Covered Bond Swap Provider) would be insufficient to pay the NZ dollar Equivalent of the Scheduled Principal that is or will be Due for Payment in respect of each Series of Covered Bonds under sub-paragraph (ii) above, the shortfall will be divided amongst all such Series of Covered Bonds on a pro rata and *pari passu* basis and the amount payable by the Covered Bond Guarantor to the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement in respect of each relevant Series of Covered Bonds or provision to be made in respect thereof under sub-paragraph (i) above will be correspondingly reduced to take into account the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (g) *seventh*, in or towards payment on the Trust Payment Date (if such date is an Interest Payment Date) or to provide for payment on any Interest Payment Date prior to the immediately succeeding Trust Payment Date of the Final Redemption Amount (or portion thereof remaining unpaid) of any Series of Covered Bonds to which an Extended Due for Payment Date applies and whose Final Redemption Amount was not paid in full by the Extension Determination Date, by making the following payments, pro rata and *pari passu* according to the respective amounts thereof of:

- (i) any amounts due or to become due and payable to the Covered Bond Swap Provider (whether or not in respect of principal) pro rata and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the Covered Bond Guarantor under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from any relevant replacement Covered Bond Swap Provider) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
- (ii) such Final Redemption Amount pro rata and *pari passu* under the Covered Bond Guarantee in respect of each relevant Series of Covered Bonds to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders,

but, in the case of any such payment or provision, after taking into account any amounts receivable from the Interest Rate Swap Provider in respect of the Interest Rate Swap Agreements and, if applicable, any amounts (whether or not in respect of principal) receivable from the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement, provided that if the amount available for distribution under this paragraph (g) (excluding any amounts received or to be received from the Covered Bond Swap Provider) would be insufficient to pay the NZ dollar Equivalent of such Final Redemption Amount in respect of the relevant Series of Covered Bonds under sub-paragraph (ii) above, the shortfall will be divided amongst all such Series of Covered Bonds on a pro rata and *pari passu* basis and any amount payable by the Covered Bond Guarantor to the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement in respect of each Series of Covered Bonds under sub-paragraph (i) above will be correspondingly reduced to take into account the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (h) *eighth*, to deposit the remaining moneys in the GIC Account for application on the immediately succeeding Trust Payment Date in accordance with the priority of payments described in paragraphs (a)-(g) (inclusive) above, until the Covered Bonds have been fully

repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds);

- (i) *ninth*, in or towards payment pro rata and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amount due and payable by the Covered Bond Guarantor under the Swap Agreements, except to the extent that such amounts have been received from any relevant replacement Swap Provider;
- (j) *tenth*, in and towards payment of all amounts due and payable (whether in respect of principal or interest) under the Intercompany Loan Agreement;
- (k) *eleventh*, in or towards payment of certain costs, expenses and indemnity amounts due by the Covered Bond Guarantor to the Asset Monitor pursuant to the Asset Monitor Agreement;
- (l) *twelfth*, in and towards payment of all amounts due and payable in respect of the Demand Loan pursuant to the terms of the Demand Loan Agreement;
- (m) *thirteenth*, in or towards payment of the Deferred Consideration then due and payable to the Seller for the transfer of the Housing Loans and the Related Security to the Covered Bond Guarantor; and
- (n) *fourteenth*, the remainder:
 - (i) subject to subparagraph (ii) below:
 - (A) except for the Trust Payment Date that occurs on or immediately after the day on which the Net Annual Income of the Trust for a Fiscal Period has vested absolutely in the Residual Income Beneficiary in accordance with the Establishment Deed, to be deposited into the GIC Account (with a corresponding credit to the Residual Income Beneficiary Ledger); and
 - (B) on the Trust Payment Date that occurs on or immediately after the day on which the Net Annual Income of the Trust for a Fiscal Period has vested absolutely in the Residual Income Beneficiary in accordance with the Establishment Deed to the Residual Income Beneficiary by way of distribution of the Net Annual Income of the Trust which has vested absolutely in the Residual Income Beneficiary (with a corresponding debit to the Residual Income Beneficiary Ledger); and
 - (ii) to the extent the Covered Bond Guarantor, or the Trust Manager on its behalf, is not satisfied that the Residual Income Beneficiary has paid or made provision for payment of income tax (if any) in respect of the income of the Trust and distributions made or to be made under this paragraph (n), to be deposited into the GIC Account (with a corresponding credit to the Residual Income Beneficiary Ledger) and either:
 - (A) paid to the Commissioner of the IRD to meet any unpaid income tax liability in respect of the income of the Trust and distribution of income of the Trust; or
 - (B) upon being satisfied that the Residual Income Beneficiary has paid or made provision for payment of income tax (if any) in respect of the income of the Trust and distributions made or to be made under this paragraph (n) paid to the Residual Income Beneficiary by way of distribution of the income of the Trust (with a corresponding debit to the Residual Income Beneficiary Ledger).

Termination payments in respect of Swaps, premiums received in respect of replacement Swaps

If the Covered Bond Guarantor receives any termination payment from a Swap Provider in respect of a Swap, such termination payment will first be used (prior to the occurrence of a Covered Bond Guarantor Event of Default and service of a Covered Bond Guarantee Acceleration Notice and/or the commencement of winding up proceedings against the Trust and/or realisation of the Security) to pay a replacement Swap Provider to enter into a replacement Swap with the Covered Bond Guarantor (and, for the avoidance of doubt the amount of such termination payment received from the Swap Provider

shall not form part of the Available Revenue Receipts or Available Principal Receipts), unless a replacement Swap has already been entered into on behalf of the Covered Bond Guarantor or if no replacement Swap is entered into in which case the termination payment shall be applied in accordance with the applicable Priorities of Payment. If the Covered Bond Guarantor receives any premium from a replacement Swap Provider in respect of a replacement Swap, such premium will first be used to make any termination payment due and payable by the Covered Bond Guarantor with respect to the previous Swap (and, for the avoidance of doubt, the amount of such premium used to pay the applicable termination payment shall not form part of the Available Revenue Receipts or Available Principal Receipts), unless such termination payment has already been made on behalf of the Covered Bond Guarantor in which case the premium shall be applied in accordance with the applicable Priorities of Payment.

Application of moneys received by the Security Trustee following the service of a Covered Bond Guarantee Acceleration Notice and/or realisation of the Security and/or the commencement of winding up proceedings against the Trust

From and including the time when the Bond Trustee serves a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor and/or winding up proceedings are commenced against the Trust and/or the Security is realised, no amount may be withdrawn from the Trust Accounts without the prior written consent of the Security Trustee.

Post-Enforcement Priority of Payments

All moneys received or recovered by the Security Trustee or any Receiver (excluding all amounts due or to become due in respect of any Third Party Amounts and excluding Swap Collateral Excluded Amounts due to the Swap Providers by the Covered Bond Guarantor, under the relevant Swap Agreement which shall be paid directly to the relevant Swap Provider), after the Security becomes enforceable, for the benefit of the Secured Creditors in respect of the Secured Obligations, shall be held by it in the Trust Accounts on trust to be applied (save to the extent required otherwise by law), in the following order of priority (and, in each case, only if and to the extent that payments or provisions of a higher order of priority have been made in full) ("**Post-Enforcement Priority of Payments**"):

- (a) *first*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof of:
 - (i) all amounts due and payable or to become due and payable to the Bond Trustee under the provisions of the Bond Trust Deed (but not including amounts otherwise payable to Covered Bondholders under this Post-Enforcement Priority of Payments) together with interest and any applicable GST (or similar Taxes) thereon;
 - (ii) all amounts due and payable or to become due and payable to the Security Trustee and any Receiver appointed by the Security Trustee under the provisions of the Security Deed (but not including amounts otherwise payable to Covered Bondholders under this Post-Enforcement Priority of Payments) together with interest and any applicable GST (or similar Taxes) thereon; and
 - (iii) all amounts due and payable or to become due and payable to the Covered Bond Guarantor under the provisions of the Establishment Deed together with interest and any applicable GST (or similar Taxes) thereon;
- (b) *second*, in or towards satisfaction of any remuneration then due and payable to the Agents under or pursuant to the Agency Agreements together with any applicable GST (or similar Taxes) thereon as provided therein;
- (c) *third*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof:
 - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement, together with any applicable GST (or other similar Taxes) thereon;

- (ii) any remuneration then due and payable to the Calculation Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Calculation Manager under the provisions of the Management Agreement, together with any applicable GST (or other similar Taxes) thereon;
 - (iii) amounts due to the Account Bank (including any costs, charges, liabilities and expenses) pursuant to the terms of the Account Bank Agreement, together with any applicable GST (or other similar Taxes) thereon; and
 - (iv) any remuneration then due and payable to the Trust Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Trust Manager under the provisions of the Establishment Deed and the Management Agreement, together with any applicable GST (or other similar Taxes) thereon;
- (d) *fourth*, in or towards satisfaction of any amounts due and payable to the Interest Rate Swap Provider (including any termination payment, but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Interest Rate Swap Agreement;
- (e) *fifth*, in or towards satisfaction of pro rata and *pari passu* according to the respective amounts thereof of:
- (i) any amounts due and payable to the Covered Bond Swap Provider pro rata and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the Covered Bond Guarantor under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
 - (ii) the amounts due and payable under the Covered Bond Guarantee, to the Bond Trustee or (if so directed by the Bond Trustee) the relevant Agent on behalf of the Covered Bondholders pro rata and *pari passu* in respect of interest and principal due and payable on each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received from the Covered Bond Swap Provider) would be insufficient to pay the NZ dollar Equivalent of the amounts due and payable under the Covered Bond Guarantee in respect of each Series of Covered Bonds under sub-paragraph (ii) above, the shortfall will be divided amongst all such Series of Covered Bonds on a pro rata and *pari passu* basis and any amount payable by the Covered Bond Guarantor to the Covered Bond Swap Provider under the relevant Covered Bond Swap in respect of each relevant Series of Covered Bonds or provision to be made in respect thereof under sub-paragraph (i) above will be correspondingly reduced to take account of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (f) *sixth*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof, of any Excluded Swap Termination Amounts due and payable by the Covered Bond Guarantor under the Swap Agreements;
- (g) *seventh*, in or towards payment of all amounts outstanding under the Intercompany Loan Agreement;
- (h) *eighth*, in or towards payment of any amounts outstanding under the Demand Loan Agreement;
- (i) *ninth*, in or towards payment of the Deferred Consideration then due to the Seller for the transfer of the Housing Loans and the Related Security to the Covered Bond Guarantor; and
- (j) *tenth*, the remainder as a distribution to the Beneficiaries in accordance with the Establishment Deed.

THE HOUSING LOAN PORTFOLIO

Each New Housing Loan Portfolio acquired by the Covered Bond Guarantor consists of Housing Loans and the Related Security sold by the Seller to the Covered Bond Guarantor from time to time, in accordance with the terms of the Mortgage Sale Agreement, as more fully described under "*Summary of the Principal Documents – Mortgage Sale Agreement*".

For the purposes hereof:

"**New Housing Loan Portfolio**" means a portfolio of New Housing Loans and the Related Security (other than any New Housing Loans and the Related Security included in such portfolio which have been redeemed in full prior to the relevant Transfer Date in respect of such portfolio), particulars of which are set out in, or attached to, a New Housing Loan Portfolio Notice, and all right, title, interest and benefit of the Seller in and to the rights and assets set out in paragraphs (a) to (f) (inclusive) below:

- (a) all sums of principal and interest (including, for the avoidance of doubt, all Arrears of Interest that are currently due and payable as at the Acquisition Cut-Off Date and all interest and expenses that have been capitalised) and any other sum due or to become due under or in respect of such New Housing Loans and the Related Security after the Acquisition Cut-Off Date (but excluding, for the avoidance of doubt, all Accrued Interest as at the Acquisition Cut-Off Date) in respect of such New Housing Loans and including, without limitation, the right to demand, sue for, recover and give receipts for all such principal, interest or other amounts, the right to sue on all covenants and undertakings made or expressed to be made in favour of the Seller under the applicable Housing Loan Conditions;
- (b) the benefit of all other securities for such principal, interest and other sums payable (including, without limitation, any interest of the Seller in any life policy), any guarantee in respect of such New Housing Loans and any other collateral security for the repayment of the relevant Housing Loans secured by the Related Security;
- (c) the right to exercise all the powers of the Seller in relation thereto subject to and in accordance with the relevant Housing Loan Conditions;
- (d) all the estate, title and interest in the Properties in relation thereto vested in the Seller;
- (e) to the extent they are assignable or capable of being put into trust, each certificate of title and Valuation Report and any right of action of the Seller against any solicitor, valuer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with any such New Housing Loans and the Related Security, or any part thereof affecting the decision of the Seller to make or offer to make such Housing Loans or part thereof; and
- (f) the benefit of certain Insurance Contracts, in each case so far as they relate to such New Housing Loans comprised in that portfolio of New Housing Loans and the Related Security, including the right to receive the proceeds of all claims made or to be made by or on behalf of the Seller or to which the Seller is or may become entitled.

Any schedule of New Housing Loans attached to any New Housing Loan Portfolio Notice may be provided in a document stored upon electronic media (including, but not limited to, electronic mail and CD-ROM).

See also the following risk factors under "*Risk Factors – Risk Factors relating to the Covered Bond Guarantor, including the ability of the Covered Bond Guarantor to fulfil its obligations in relation to the Covered Bond Guarantee – Limited description of the Portfolio*".

LEGAL ASPECTS OF THE HOUSING LOAN PORTFOLIO

Legal Aspects of the Purchased Receivables

The following discussion is a summary of the material legal aspects of the Housing Loan Portfolio. This summary reflects the laws of New Zealand only and is not an exhaustive analysis of the relevant law.

General

In general, there are two parties to a mortgage. The first party is the mortgagor, who is either the borrower and homeowner or, where the relevant loan is guaranteed and the guarantee is secured by a mortgage, the guarantor. The mortgagor grants the mortgage over his or her property. The second party is the mortgagee, who is the lender. Generally, each housing loan will be secured by a mortgage which has a first ranking priority over all other mortgages granted by the relevant borrower and over all unsecured creditors of the borrower, except in respect of certain statutory rights such as some rates (i.e. local government property taxes) and taxes, which are granted statutory priority. All Housing Loans forming part of the Housing Loan Portfolio will be secured by a first ranking registered Mortgage over Land. The terms of the mortgage generally will provide that the mortgagor cannot create another registered mortgage over the relevant mortgaged property without the consent of the prior lender.

Types of security in New Zealand

All New Zealand residential housing loans may be secured by a mortgage over one of the following types of interest in land.

Torrens Title

Torrens title is the most common form by which title to land is held in New Zealand. Torrens title is freehold or leasehold title, interests in which are created by registration pursuant to the Land Transfer Act 1952. Each parcel or parcels of freehold land are represented by a separate computer freehold identifier, commonly referred to as a certificate of title.

Unit Title Act 2010

A subset of the Torrens title are unit titles created pursuant to the Unit Title Act 2010 which provides a system of title under which land is divided into a number of units, usually in stratum estates. The proprietor has title to a unit of that land and may, subject to any restrictions registered against the title to that unit, freely deal with that unit. Certain parts of the property, such as the land on which the building is erected, the stairwells and entrance lobbies, are referred to as "common property" and are owned by a "Body Corporate" ("**Body Corporate**") for the benefit of all of the proprietors. All proprietors are members of the Body Corporate, which is vested with the control, management and administration of the common property and the property generally, including the regulations governing the apartment block, for the benefit of the proprietors.

Taking security over Land

The following is a summary of the material issues involved in taking security over land in New Zealand.

A mortgage is a charge on land only - the mortgagor (the borrower or guarantor) remains the registered proprietor of the land to which the mortgage relates.

New Zealand does not have a prescribed form of mortgage and most New Zealand mortgage providers (including ANZ New Zealand) employ their own form of mortgage contract.

A mortgage registered under the Land Transfer Act 1952 will generally receive priority over a mortgage that has not been registered. To this extent, the mortgagee is said to have a legal or registered interest in the land. However, registration does not transfer title in the property, and the mortgagor remains as legal owner; in short, the mortgage operates as a charge over the property. The mortgagee obtains an interest in the land which is registered against the title for the property at LINZ. A search of

the LINZ register by any subsequent creditor or proposed creditor will reveal the existence of the prior mortgage.

Once the mortgagor has repaid his or her debt, a discharge executed by the mortgagee is lodged by the mortgagor or the mortgagee, and the land ceases to be subject to the charge created by the mortgage as security for the debt.

A lender may also take a second mortgage over land in New Zealand. This discussion assumes that each of the first and second ranking mortgages are registered under the Land Transfer Act 1952.

A mortgage may be registered with the benefit of a stated priority amount. That mortgagee may then recover in priority to subsequent mortgagees the lesser of the amount owing and the priority amount. The priority amount is only relevant for sharing the proceeds of sale between mortgagees. It does not limit the amount a sole mortgagee can seek to recover from the mortgagor.

Where two or more mortgagees agree to vary the priorities of their mortgages a priority agreement may be entered into between the mortgagees. The priority agreement will generally regulate the enforcement and sale process in respect of the mortgaged property and the application of the sale proceeds between the first and second ranking mortgagees.

If no such priority agreement is entered into, then the holder of a second ranking mortgage may commence the enforcement and sale process in respect of the mortgaged property, without the consent or control of the holder of the first ranking mortgage, but upon the sale of the related property will be required to obtain the release of the first ranking mortgage from the related property, by payment of all amounts secured to the first mortgage (or the priority amount stated in the first mortgage if lower). Equally, the holder of the first ranking mortgage may take these actions and is required only to account to the holder of a second ranking mortgage for any sale proceeds that exceed the amount due to the holder of the first ranking mortgage (or the priority amount stated in the first mortgage if lower).

In each case, the sale proceeds are generally applied first towards repayment of all amounts due to the holder of the first ranking mortgage. The holder of the second ranking mortgage is entitled to the sale proceeds only to the extent that all amounts due to the holder of the first ranking mortgage have been paid up to the lesser of the amount of the debt then outstanding and the priority amount of that mortgage (as recorded in the mortgage and/or any priority agreement). If a priority amount is not stated or the amounts owing to the first mortgagee exceed the priority amount then the rule against tacking will apply. This prevents a first ranking mortgagee obtaining priority for further advances made by the first mortgagee after receipt of notice of the second mortgage, unless there is a pre-existing obligation on the first mortgagee to make the further advance or the further advance is made in accordance with the terms of a priority agreement with the second mortgagee.

Where a mortgage is over a leasehold title, the value of that security is dependent on the leasehold interest continuing to exist.

Enforcement of Registered Mortgages

Enforcement Generally

The following is a summary of the material issues involved in enforcing registered mortgages in New Zealand.

Subject to the discussion in this section (and, in particular, the requirements of the Property Law Act 2007), if a borrower defaults under a housing loan, the loan documents will generally provide that all moneys under the mortgage loan become due and payable either, in limited circumstances, immediately, or otherwise after a default notice has been given and the default has not been remedied within a prescribed period of time (generally at least 20 working days). The lender then has a number of remedies, including the right to sue to recover all outstanding principal, interest and fees under the borrower's personal covenant to repay the amounts set out in the loan documents.

In addition, the lender may enforce a registered mortgage in a number of ways. These include:

- **selling the property:** The power of sale is usually expressly contained in the mortgage documents, and is also implied in registered mortgages under the Land Transfer Act 1952

and/or the Property Law Act 2007. The legislation prescribes certain forms and periods of notice (usually not less than 20 working days) to be given to the mortgagor prior to enforcement which apply notwithstanding any contrary provision in the mortgage. The mortgagee is under a duty to take reasonable care to obtain the best price reasonably obtainable for the sale of the mortgaged property. Subject to this duty, the sale may be by public auction or private treaty. The purchaser of the property sold pursuant to a mortgagee's power of sale becomes the owner of the property subject to any interests registered prior to the mortgage and any other estates and interests that are otherwise binding on the vendor mortgagee (for example, where the mortgagee has agreed that the property may be subject to an easement). The Property Law Act 2007 allows for the sale either with the assistance of the High Court or through the Registrar of the High Court. The only way that a mortgagee can become the proprietor of the land is either a sale with the assistance of the High Court or a sale through the Registrar of the High Court.

- **entering into possession of the property:** If the mortgagee enters into possession, it does so in its own right and not as agent of the mortgagor, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property. The mortgagee may lease the property to third parties subject to the duty to obtain the best rent reasonably obtainable. The mortgagee may apply rent or profits received from the possession of the property in satisfaction of the amount owing in respect of the mortgage loan and the related mortgage. Upon taking possession, the mortgagee has a number of duties including the duty to account, to realise assets conscientiously, to get in rents and other income, to improve the property and make repairs if necessary to satisfy the duty of sale, and to take reasonable steps to maintain the security for the benefit of the guarantor (if any) (see below also for information relating to environmental liability); and
- **appointing a receiver or receiver and manager ("receiver") to deal with the property or with income from the property or exercise other rights delegated to the receiver by the mortgagee:** For mortgages that came into operation on or after 1 January 2008, there is an implied power to appoint a receiver; prior to 1 January 2008 there was no implied power to appoint a receiver and any power to appoint a receiver had to be contractual. A receiver will generally manage and administer the property in the interests of the mortgagee in order to preserve the mortgagee's security and collect the income from the property. A receiver is the agent of the mortgagor and so, unlike when the mortgagee enters possession of property, the mortgagor is liable for the receiver's acts as occupier of the property. The receiver will also owe duties to the mortgagor, guarantor (if any) and other interested parties to act in good faith. In the case of a company mortgagor the receiver will also be subject to a duty to obtain the best price reasonably obtainable.

Each Housing Loan is a credit contract regulated by the Credit Contracts and Consumer Finance Act 2003 or the Credit Contracts Act 1981. For further detail regarding the obligations and possible remedies imposed under these Acts, please see pages 241 to 244 of this Prospectus.

Bankruptcy and Insolvency

The insolvency of a natural person is governed by the provisions of the Insolvency Act 2006. Secured creditors of a natural person, such as mortgagees under land mortgages, stand outside the bankruptcy. That is, the property of the bankrupt which is available for distribution to creditors by the Official Assignee in bankruptcy does not include the mortgaged property. The mortgagee may prove, or file a claim, in the bankruptcy as an unsecured creditor if it has realised the mortgaged property and its debt has not been fully repaid, in which case it can prove for the unpaid balance. If the mortgagee proves in the bankruptcy for the full amount of its debt without taking into account the value of the mortgaged property, it will be deemed to have surrendered its security.

Certain dispositions of property (including the granting of a mortgage) by a bankrupt prior to the commencement of the bankruptcy may be avoided by the Official Assignee in bankruptcy. These include where:

- the transaction was made in the two years immediately prior to the bankrupt's adjudication, the bankrupt was insolvent at the time and the transaction resulted in a creditor receiving more than they would have in an insolvency (i.e. a preference);

- the bankrupt, with the intent to prejudice a creditor, by way of gift or without receiving reasonably equivalent value in exchange, makes a disposition while insolvent or becomes insolvent as a result of the disposition; and
- the disposition was a gift made by the bankrupt within 2 years of the bankruptcy or within 2 to 5 years of the bankruptcy at a time when the bankrupt was insolvent.

Additionally, the Official Assignee may recover the value lost where the bankrupt has, within the past two years, entered into a transaction at an undervalue.

The insolvency of a company is governed by the Companies Act. Again, secured creditors generally stand outside the liquidation. However, a liquidator may avoid a mortgage under the Companies Act including where:

- it is an insolvent transaction, that is, the company gave a preference to a creditor;
- the company, with the intent to prejudice a creditor, by way of gift or without receiving reasonably equivalent value in exchange, makes a disposition while insolvent or becomes insolvent as a result of the disposition; or
- the company enters into a transaction at an undervalue at a time when the Company was insolvent or became insolvent because of the transaction.

The liquidator may also avoid a loan or mortgage which is fraudulent.

In addition to bankruptcy and liquidation, the Insolvency Act and Companies Act provide for the appointment of an administrator to assume control of an insolvent mortgagor's affairs to enable a workout arrangement to be put to the mortgagor's creditors. In this event a temporary moratorium may apply to prevent mortgagees and other creditors from taking enforcement action against the mortgagor or the mortgagor's property.

Environmental Considerations

Land which is mortgaged to a lender may be subject to unforeseen environmental problems, including land contamination. No New Zealand statute expressly imposes liability on "passive" lenders or security holders for environmentally damaged land, including the cost of rectifying the damage, but liability may attach to a person who is, for instance, an owner, occupier or person in control of the relevant property.

Merely holding security over property does not convert a lender into an owner or occupier. However, a lender or receiver who takes possession of contaminated mortgaged property or otherwise enforces its security may be liable as an owner or occupier.

To the extent that the official assignee or a receiver incur any of these liabilities in the proper administration of the insolvent estate, it will be entitled to be indemnified out of the assets of the insolvent estate.

Tax Treatment of Interest on New Zealand Mortgage Loans

Under New Zealand law, interest on loans used to purchase a person's primary place of residence is not ordinarily deductible for taxation purposes. Conversely, interest payments on loans and other non-capital expenditures relating to non-owner occupied residential properties that generate assessable income are generally allowable as tax deductions.

The Seller as Mortgagee

The Seller is and, at least until a Title Perfection Event occurs, intends to remain, the registered mortgagee of all the mortgages. The borrowers and guarantors will not be aware of the assignment of the mortgage loans and mortgages to the Covered Bond Guarantor.

Prior to any Title Perfection Event, the Servicer will undertake any necessary enforcement action with respect to defaulted mortgage loans and mortgages. Following a Title Perfection Event, the Covered

Bond Guarantor is entitled, under an irrevocable power of attorney granted to the Covered Bond Guarantor by the Seller, to be registered as mortgagee of the mortgages.

Each New Housing Loan Portfolio acquired by the Covered Bond Guarantor consists of Housing Loans sold by the Seller to the Covered bond Guarantor from time to time, in accordance with the terms of the Mortgage Sale Agreement, as more fully described under "*Summary of the Principal Documents - Mortgage Sale Agreement*".

For the purposes hereof:

"New Housing Loan Portfolio" means a portfolio of New Housing Loans and the Related Security (other than any New Housing Loans and the Related Security included in such portfolio which have been redeemed in full prior to the relevant Transfer Date in respect of such portfolio), particulars of which are set out in, or attached to, a New Housing Loan Portfolio Notice, and all right, title, interest and benefit of the Seller in and to the rights and assets set out in paragraphs (a) to (f) (inclusive) below:

- (a) all sums of principal and interest (including, for the avoidance of doubt, all Arrears of Interest that are currently due and payable as at the Acquisition Cut-Off Date and all interest and expenses that have been capitalised) and any other sum due or to become due under or in respect of such New Housing Loans and the Related Security after the Acquisition Cut-Off Date (but excluding, for the avoidance of doubt, all Accrued Interest as at the Acquisition Cut-Off Date) in respect of such New Housing Loans and including, without limitation, the right to demand, sue for, recover and give receipts for all such principal, interest or other amounts, the right to sue on all covenants and undertakings made or expressed to be made in favour of the Seller under the applicable Housing Loan Conditions;
- (b) the benefit of all other securities for such principal, interest and other sums payable (including, without limitation, any interest of the Seller in any life policy), any guarantee in respect of such New Housing Loans and any other collateral security for the repayment of the relevant Housing Loans secured by the Related Security;
- (c) the right to exercise all the powers of the Seller in relation thereto subject to and in accordance with the relevant Housing Loan Conditions;
- (d) all the estate, title and interest in the Properties in relation thereto vested in the Seller;
- (e) to the extent they are assignable or capable of being put into trust, each certificate of title and Valuation Report and any right of action of the Seller against any solicitor, valuer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with any such New Housing Loans and the Related Security, or any part thereof affecting the decision of the Seller to make or offer to make such Housing Loans or part thereof; and
- (f) the benefit of certain Insurance Contracts, in each case so far as they relate to such New Housing Loans comprised in that portfolio of New Housing Loans and the Related Security, including the right to receive the proceeds of all claims made or to be made by or on behalf of the Seller or to which the Seller is or may become entitled.

See also the following risk factors under "*Risk Factors - Risk Factors relating to the Covered Bond Guarantor, including the ability of the Covered Bond Guarantor to fulfil its obligations in relation to the Covered Bond Guarantee - Limited description of the Portfolio*".

Consumer Legislation

The following discussion is a summary of the Credit Contracts Act 1981 ("**CCA**"), the Credit Contracts and Consumer Finance Act 2003 ("**CCCFA**") and certain provisions of the Fair Trading Act 1986 ("**FTA**"), the key consumer legislation in New Zealand affecting the Housing Loan Portfolio. This summary reflects New Zealand law only and is not an exhaustive analysis of the CCA, CCCFA or FTA, nor is this the only New Zealand legislation which is relevant to the Housing Loan Portfolio.

Housing Loans regulated by the Credit Contracts Act 1981 and the Credit Contracts and Consumer Finance Act 2003

The CCA and the CCCFA impose requirements on Housing Loans which are regulated credit contracts.

Each Housing Loan is a credit contract regulated by the CCCFA or the CCA. The CCCFA applies to all credit contracts entered into from 1 April 2005, and the CCA applies to all credit contracts entered into prior to 1 April 2005 unless an election has been made for the CCCFA to apply to the relevant credit contract. The CCCFA was substantially amended by the Credit Contracts and Consumer Finance Amendment Act 2014 ("**2014 Amendments**"), which came fully into force on 6 June 2015. The 2014 Amendments apply to all credit contracts entered into on or after 6 June 2015 ("**New Contracts**"). For credit contracts entered into between 1 April 2005 and 6 June 2015 ("**Existing Contracts**"), the CCCFA as in force immediately prior to 6 June 2015 continues to apply other than in relation to certain variation and disclosure obligations.

Both the CCA and the CCCFA set out specific requirements for certain credit contracts in relation to required initial and on-going disclosure, fees and terms provided by the credit contracts and the exercise of powers by the creditor under the credit contracts. Where a credit contract is entered into between a natural person and a creditor in the business of providing credit, and in the case of the CCCFA the contract is entered into wholly or predominantly for personal, domestic or household purposes, the contract is a "controlled credit contract" under the CCA or a "consumer credit contract" under the CCCFA.

Pursuant to the terms of the Mortgage Sale Agreement, the Seller will represent and warrant to, among others, the Covered Bond Guarantor that each Housing Loan and the Related Security complies with the relevant requirements for controlled credit contracts and consumer credit contracts in the CCA and the CCCFA (to the extent that those statutes are applicable to the Housing Loan and the Related Security) (or to the extent of any non-compliance, such non-compliance would not affect the enforceability of the Housing Loan and the Related Security).

Reopening oppressive credit contracts

Part 1 of the CCA and part 5 of the CCCFA set out provisions for reopening oppressive credit contracts. The relevant provisions give a court power to reopen a credit contract where the court considers that the contract is oppressive, a party to the contract has exercised a power conferred by the contract in an oppressive manner or a party to the contract has induced the other party to enter into the credit contract by oppressive means. In this context, "oppressive" means harsh, unjustly burdensome, unconscionable or in contravention of reasonable standards of commercial practice. Where a court reopens a credit contract it has a wide discretion to make the orders it thinks necessary to remedy the matters that caused the contract to be reopened. Orders can include ordering a party to transfer property or pay a sum the court thinks fit to any other party, altering obligations under the contract, ordering compliance with or performance of obligations under the contract, setting aside the contract or terms of the contract, ordering a party to indemnify another party and ordering a party to refrain from doing any act or thing in relation to any other party.

Variations to agreements regulated by the CCA and the CCCFA

Variation of controlled credit contracts is regulated under the CCA and variation of consumer credit contracts is regulated under the CCCFA.

Under the CCA, an agreement for variation of a controlled credit contract must be disclosed to every debtor (and guarantor) under the controlled credit contract not later than 15 working days after the entering into of the contract for the variation. The provisions relating to disclosure of variations under the CCA do not apply where the creditor has exercised a power or made a determination under the credit contract, or released security, reduced amounts outstanding, altered the cost of credit, the period of the contract or altered the number, frequency or amounts of payments under the contract.

Under the CCCFA, the parties may enter into an agreement to change the consumer credit contract. In those circumstances disclosure of the variation must be made before the change takes effect. However, if the change reduces the debtor's obligations, extends the time for payment, releases any security or increases any credit limit under a consumer credit contract, disclosure may instead be made either within five working days of the day on which the change takes effect or, if the creditor is required to make continuing disclosure, at the same time as the creditor provides the debtor with the next continuing disclosure statement after the change takes effect. Where the creditor exercises a power

under the contract to make changes in relation to the interest rates, payments (including amounts, time for payments, frequency or method of calculating payments), fees or charges under the contract, or the credit limit under the contract, disclosure to the debtor must be made within five working days of the change taking effect, unless the change reduces the obligations of the debtor or extends time for payment, in which case disclosure may be made within five working days of the change taking effect (or, if applicable, in the next continuing disclosure statement).

Ability to charge and recover fees on the Housing Loans

The CCCFA prohibits consumer credit contracts from providing for credit fees or default fees which are unreasonable. A court has the power to reduce or annul fees under a consumer credit contract if it is satisfied that those fees are unreasonable. "Credit fees" means fees or charges payable by the debtor under the credit contract, or payable by the debtor to, or for the benefit of the creditor in connection with the credit contract. It includes establishment fees, prepayment fees and insurance premiums payable for credit-related insurance in some cases. It does not include interest charges, charges for optional services, default fees or default interest charges and government charges, duties, taxes or levies.

In determining whether an establishment fee is unreasonable the court must have regard to whether the fee is equal to or less than the reasonable costs of the creditor in connection with the application for credit, processing and considering the application, documenting the contract and advancing the credit, or whether those costs are equal to or less than the average costs for that category of credit contract.

Prepayment fees will only be unreasonable where they exceed a reasonable estimate of the creditor's loss from the part or full prepayment of the contract. A formula for calculating reasonable credit fees on full prepayment is prescribed by regulations. Creditors can use the prescribed formula or may use another appropriate formula set out in the relevant consumer credit contract. Where the creditor uses the prescribed formula to calculate the fee on full prepayment, the fee will be treated by a court as a reasonable estimate of the creditor's loss.

In determining whether other fees payable under Existing Contracts are unreasonable, the court must have regard to whether the fee reasonably compensates the creditor for costs incurred by the creditor and to the reasonable standards of commercial practice.

For New Contracts, in determining whether other fees are unreasonable, the court must have regard to whether the fee reasonably compensates the creditor for costs incurred by the creditor. In determining whether the fee reasonably compensates the creditor for costs, the court must have regard to reasonable standards of commercial practice.

Lender responsibility principles

In relation to New Contracts, every lender must comply with the "lender responsibility principles". The lender responsibility principles set out lenders' responsibilities to borrowers and guarantors and generally require lenders to exercise the care, diligence and skill of a responsible lender when advertising, before agreeing to provide credit or taking guarantees, and in all subsequent dealings with borrowers and guarantors. The lender responsibility principles impose obligations on the lender to make reasonable inquiries before entering into an agreement, assist borrowers to make informed decisions, treat borrowers and their property reasonably and in an ethical manner, comply with all of their other legal obligations to borrowers (including those relating to unfair contract terms under the FTA described below), ensure that the relevant credit contract is not oppressive and that the lender does not deal with borrowers and guarantors by oppressive means.

Enforceability

Non-compliance with certain provisions of the Financial Service Providers (Registration and Dispute Resolution) Act 2008 and the CCCFA can affect the enforceability of credit contracts and, in some circumstances, the ability of the lender to recover costs of borrowing and other fees in relation to the credit contracts.

Fair Trading Act 1986

Each Housing Loan is a "standard form consumer contract" for the purposes of the FTA. For standard form consumer contracts entered into, varied or renewed after 17 March 2015, the Commerce Commission may apply to a court for a declaration that a term in a standard form consumer contract is an "unfair contract term". If the court makes such a declaration, a person must not include, apply, enforce, or rely on, the unfair contract term in a standard form contract. A term in a standard form consumer contract will be unfair for the purposes of the FTA if the court is satisfied that the term would cause a significant imbalance in the parties' rights and obligations, is not reasonably necessary in order to protect the legitimate interests of the party who would be advantaged by the term, and would cause detriment to a party if it were applied, enforced, or relied upon.

BOOK ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuers, the Guarantor and the Covered Bond Guarantor believe to be reliable, but none of the Issuers, the Covered Bond Guarantor, the Guarantor, the Bond Trustee nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuers, the Covered Bond Guarantor, the Guarantor, nor any other party to the Principal Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry systems

DTC

DTC has advised the Issuers that it is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Participants**") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**").

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**Rules**"), DTC makes book-entry transfers of Registered Covered Bonds among Direct Participants on whose behalf it acts with respect to Covered Bonds accepted into DTC's book-entry settlement system ("**DTC Covered Bonds**") as described below and receives and transmits distributions of principal and interest on DTC Covered Bonds. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Covered Bonds ("**Owners**") have accounts with respect to the DTC Covered Bonds similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Covered Bonds through Direct Participants or Indirect Participants will not possess Registered Covered Bonds, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Covered Bonds.

Purchases of DTC Covered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC's records. The ownership interest of each actual purchaser of each DTC Covered Bond ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Covered Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued.

To facilitate subsequent transfers, all DTC Covered Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Covered Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership.

DTC has no knowledge of the actual Beneficial Owners of the DTC Covered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Each issue of DTC Covered Bonds shall be represented by a Rule 144A Global Covered Bond and/or a Regulation S Global Covered Bond, each in the aggregate principal amount of such issue sold in reliance on Rule 144A or Regulation S, as the case may be, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds US\$500 million, one Rule 144A Global Covered Bond and/or Regulation S Global Covered Bond will be issued with respect to each US\$500 million of principal amount, and an additional Rule 144A Global Covered Bond or Regulation S Global Covered Bond, as applicable, will be issued with respect to any remaining principal amount of such Global Bonds issued in reliance on Rule 144A or Regulation S, as applicable.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect 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.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Covered Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Covered Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Covered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Covered Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by 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 Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Covered Bonds, DTC will exchange the DTC Covered Bonds for definitive Registered Covered Bonds, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Covered Bond, will be legended as set forth under "Subscription and Sale and Transfer and Selling Restrictions".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Covered Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Covered Bonds, will be required to withdraw its Registered Covered Bonds from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Covered Bonds

The Issuer may apply to DTC in order to have any Tranche of Covered Bonds represented by a Registered Global Covered Bond accepted in its book-entry settlement system. Upon the issue of any such Registered Global Covered Bond, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Covered Bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Covered Bond will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Covered Bond, the respective depositories of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Covered Bond accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Covered Bond accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Covered Bond. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Covered Bond in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Covered Bonds will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Covered Bonds to DTC is the responsibility of the Issuer.

Transfers of Covered Bonds Represented by Registered Global Covered Bonds

Transfers of any interests in Covered Bonds represented by a Registered Global Covered Bond within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. The ability of any holder of Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to resell, pledge or otherwise transfer such Covered Bonds may be impaired if the proposed transferee of such Covered Bonds is not eligible to hold such Covered Bonds through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Covered Bonds described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance

with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian ("**Custodian**") with whom the relevant Registered Global Covered Bonds have been deposited.

On or after the Issue Date for any Series, transfers of Covered Bonds of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Covered Bonds of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Covered Bonds will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuers, the Guarantor, the Covered Bond Guarantor, the Bond Trustee, the Security Trustee, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

New Zealand Taxation

The following is a generalised summary of the New Zealand taxation implications of investing in the Covered Bonds and is based on the taxation laws in force as at the date of this Prospectus under the Tax Act. The comments relate only to Covered Bonds issued pursuant to a binding agreement entered into on or after 30 March 2017. It is important to note that the tax implications of the investment will depend on the circumstances of each taxpayer. Prospective Covered Bondholders should consult a tax adviser on the tax implications of investing in the Covered Bonds in relation to each prospective Covered Bondholder's specific circumstances.

Resident Withholding Tax

The Issuer, the Guarantor or the Covered Bond Guarantor, as the case may be, will deduct New Zealand resident withholding tax at the rate required by law from the payment of interest (and for the purposes of this section dealing with New Zealand Taxation "**interest**" means interest as defined under New Zealand tax legislation) to the Covered Bondholder, Receiptholder or Couponholder if:

- (a) the person deriving the interest:
 - (i) is a resident of New Zealand for income tax purposes;
 - (ii) is a non-resident that holds the Covered Bond, Coupon or Receipt for the purposes of a business carried on in New Zealand through a fixed establishment in New Zealand; or
 - (iii) is a non-resident that is a registered bank in New Zealand and is engaged in business in New Zealand through a fixed establishment in New Zealand and is not associated with the Issuer,(each a "**New Zealand Bondholder**"); and
- (b) at the time of such payment, the New Zealand Bondholder does not hold a valid certificate of exemption for New Zealand resident withholding tax purposes.

If resident withholding tax is required to be deducted from the payment of any interest by the Issuer, the Guarantor or by the Covered Bond Guarantor under the Covered Bond Guarantee, the Issuer, the Guarantor or the Covered Bond Guarantor (as the case may be) will not be obliged to pay any additional amount.

Non-Resident Withholding Tax

New Zealand law requires, in certain circumstances, a deduction on account of non-resident withholding tax to be made from the payment of interest (including amounts deemed to be interest) with a New Zealand source to a Covered Bondholder, Receiptholder or Couponholder who is not a New Zealand Bondholder. If non-resident withholding tax is required to be deducted from the payment of any interest to any holder of a Covered Bond, ANZ New Zealand and ANZNIL intend (for so long as they do not incur any increased cost or detriment for so doing and are legally able to do so) to reduce the applicable rate of non-resident withholding tax to zero per cent. as a result of receiving or having received approved issuer status, registering or having registered the Programme with the IRD and paying, on its own account, an approved issuer levy (currently equal to 2 per cent. of such payments of interest).

Where a Covered Bondholder, Receiptholder or Couponholder who is not a New Zealand Bondholder holds the Covered Bond, Receipt or Coupon jointly with a person who is a New Zealand tax resident, non-resident withholding tax must be deducted from interest paid to the non-resident 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. The Issuer will not pay an additional amount to the Covered Bondholder, Receiptholder or Couponholder in respect of non-resident withholding tax deducted in that case.

If non-resident withholding tax is required to be deducted from the payment of any interest by the Covered Bond Guarantor under the Covered Bond Guarantee, the Covered Bond Guarantor will not be obliged to pay any additional amount as a consequence, or (for the avoidance of doubt) to pay the approved issuer levy (unless required by law).

If the Covered Bond Guarantor is required by law to pay approved issuer levy in respect of any payments made by it under the Covered Bond Guarantee, it may deduct from such payments an amount equal to the amount of approved issuer levy payable and will not be obliged to pay any additional amount as a consequence.

New Zealand Income Tax Implications

For a Covered Bondholder, Receiptholder or Couponholder who is a New Zealand tax resident, or who is not New Zealand tax resident but is party to a Covered Bond, Receipt or Coupon for the purpose of a business carried on by that Covered Bondholder, Receiptholder or Couponholder through a fixed establishment in New Zealand, the Covered Bonds, Receipts or Coupons will be subject to the "financial arrangements rules" in the Tax Act. These rules bring to tax on an accrual basis interest and other amounts (such as gains on disposal) deemed by the rules to be equivalent to interest.

United Kingdom Taxation

The comments below are of a general nature based on the Issuers' understanding of current United Kingdom law and published HM Revenue & Customs ("HMRC") practice. They relate only to the position of persons who are the absolute beneficial owners of their Covered Bonds and all payments made thereon. The comments relate only to withholding tax on payments of, or in respect of, interest on the Covered Bonds issued by ANZNIL acting through its London branch and do not deal with any other aspect of the United Kingdom taxation treatment that may be applicable to holders of such Covered Bonds (including, for instance, income tax, capital gains tax and corporation tax). Prospective holders of Covered Bonds should note that the particular terms of issue of any Series of Covered Bonds as specified in the applicable Final Terms may affect the tax treatment of that and any other Series of Covered Bonds and should be treated with appropriate caution. The comments below do not deal with the tax consequences of any substitution of the Relevant Issuer in accordance with Condition 11 (Meetings of Covered Bondholders, Modification, Waiver, Substitution and Legislative Exchange). References to "interest" in this section mean "interest" as understood in United Kingdom tax law, and does not take account of any different definitions of "interest" which may prevail under any other law or which may be created by the terms and conditions of the Covered Bonds or any related documentation.

The United Kingdom tax treatment of prospectus holders of Covered Bonds depends on their individual circumstances and may be subject to change. Any holders of Covered Bonds who are in doubt as to their tax position should consult their professional advisers. Holders of Covered Bonds who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of Covered Bonds 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 Covered Bonds. In particular, holders of Covered Bonds should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Covered Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

Payment of interest in respect of the Covered Bonds issued by ANZNIL

While the Covered Bonds issued by ANZNIL carry a right to interest, and are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the United Kingdom Income Tax Act 2007 (the "ITA"), payments of interest may be made by ANZNIL without withholding or deduction for or on account of United Kingdom income tax. The London Stock Exchange is a recognised stock exchange for the purposes of section 1005 of the ITA. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and are admitted to trading on the London Stock Exchange.

Interest on the Covered Bonds may also be paid by ANZNIL without withholding or deduction on account of United Kingdom income tax where, at the time the payment is made, ANZNIL reasonably believes (and any person by or through whom interest on the Covered Bonds is paid reasonably believes) either:

- (a) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest; or
- (b) that the payment is made to one of the bodies or persons set out in sections 935 to 937 of the ITA,

provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that the relevant above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

Interest on Covered Bonds may be paid by ANZNIL without withholding or deduction for or on account of United Kingdom income tax provided the maturity of the Covered Bonds is less than 365 days and those Covered Bonds do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In all other cases, an amount must generally be withheld from payments of interest on the Covered Bonds on account of United Kingdom income tax at the basic rate (currently 20 per cent), subject to such relief as may be available following a direction to the contrary by HMRC pursuant to the provisions of any applicable double taxation treaty, or any other exemption which may apply.

Payments by the Covered Bond Guarantor in respect of the Covered Bonds issued by ANZNIL

If the Covered Bond Guarantor, pursuant to the Covered Bond Guarantee, makes any payment in respect of interest on the Covered Bonds (or any other amounts due under the Covered Bonds other than the repayment of amounts subscribed for the Covered Bonds), such payment may be subject to United Kingdom withholding tax, subject to such relief as may be available under the provisions of any applicable double taxation treaty or any other relief that may apply. Such payments by the Covered Bond Guarantor may not, however, be eligible for the exemptions from the obligation to withhold tax described in the paragraphs above. If payments by the Covered Bond Guarantor are subject to any withholding or deduction for or on account of tax, the Covered Bond Guarantor will not be required to pay any additional amounts.

Payments by the Guarantor in respect of the Covered Bonds issued by ANZNIL

If the Guarantor makes any payment in respect of interest on the Covered Bonds (or any other amounts due under the Covered Bonds other than the repayment of amounts subscribed for the Covered Bonds), such payment may be subject to United Kingdom withholding tax, subject to such relief as may be available under the provisions of any applicable double taxation treaty or any other relief that may apply. Such payments by the Guarantor may not, however, be eligible from the exemptions from the obligation to withhold tax described in the paragraphs above. If payments by the Guarantor are subject to any withholding or deduction for or on account of tax, the Guarantor will be required to pay additional amounts subject to the exceptions set out in Condition 7 (*Taxation*) of the Covered Bonds.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have pursuant to a programme agreement (as the same may be amended and/or supplemented and/or restated from time to time, the "**Programme Agreement**") dated 17 June 2014 and, with respect to offerings that include sales into the United States, a distribution agreement (as the same may be amended and/or supplemented and/or restated from time to time, the "**Distribution Agreement**") dated 23 August 2012, agreed with the Issuers, the Guarantor and the Covered Bond Guarantor a basis upon which such Dealers or any of them may from time to time agree to purchase Covered Bonds. Any such agreement for any particular purchase by a Dealer will extend to those matters stated under *Form of the Covered Bonds and Terms and Conditions of the Covered Bonds* above. As at the date of this Prospectus, the Dealers are Australia and New Zealand Banking Group Limited and Barclays Bank PLC but the Issuers may appoint other dealers from time to time in accordance with the respective terms of the Programme Agreement and the Distribution Agreement, which appointment may be for a specific issue or on an on-going basis. The Distribution Agreement may also provide for the sale of Covered Bonds by the Issuers directly to investors, in which case each Dealer will act as an agent of the relevant Issuer in soliciting purchases of the Covered Bonds. An Issuer may also sell Covered Bonds directly to, and may solicit and accept offers to purchase directly from, investors on its own behalf in those jurisdictions where it is authorised to do so.

The Issuers may pay the Dealers commissions from time to time in connection with the sale of any Covered Bonds. In the Programme Agreement and the Distribution Agreement, the Dealers are (or may be) entitled to be released and discharged from their obligations in relation to any agreement to purchase Covered Bonds under the Programme Agreement or the Distribution Agreement (as applicable) in certain circumstances prior to payment to the Issuer.

In order to facilitate the offering of any Tranche of the Covered Bonds, certain persons participating in the offering of the Tranche may, in jurisdictions where such action is permitted, engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Covered Bonds during and after the offering of the Tranche. Specifically, such persons may over-allot or create a short position in the Covered Bonds for their own account by selling more Covered Bonds than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Covered Bonds in the open market. In addition, such persons may, in jurisdictions where such action is permitted, stabilise or maintain the price of the Covered Bonds by bidding for or purchasing Covered Bonds in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker dealers participating in the offering of the Covered Bonds are reclaimed if Covered Bonds previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Covered Bonds at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Covered Bonds to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under United Kingdom laws and regulations stabilising activities may only be carried on by the stabilising manager named in the applicable Final Terms and must end no later than the earlier of 30-days after the Issue Date of the relevant Series or Tranche of the Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Under the Distribution Agreement, the Issuers may be required not to engage in stabilisation except in compliance with applicable law.

The Issuers have appointed Australia and New Zealand Banking Group Limited, New York Branch, with offices at 277 Park Avenue, 31st Floor, New York 10172 as agent to receive service of any and all legal process, summons, notices and documents that may be served in any action brought in the United States arising out of the Distribution Agreement.

Transfer Restrictions

As a result of the following restrictions, purchasers of Covered Bonds in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Covered Bonds.

Each purchaser of Registered Covered Bonds (other than a person purchasing an interest in a Registered Global Covered Bond with a view to holding it in the form of an interest in the same Global Covered Bond) or person wishing to transfer an interest from one Registered Global Covered Bond to

another or from global to definitive form or *vice versa*, will be deemed to have acknowledged, represented and agreed, and each person purchasing an interest in a Registered Global Covered Bond with a view to holding it in the form of an interest in the same Global Covered Bond will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (a) the Covered Bonds, the Guarantee and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or any other applicable securities law and, accordingly, none of the Covered Bonds 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;
- (b) that either: (i) it is a QIB, purchasing (or holding) the Covered Bonds for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (ii) it is not a U.S. person and is purchasing in compliance with Regulation S;
- (c) agrees on its own behalf and on behalf of any account for which it is purchasing Covered Bonds, to offer, sell or otherwise transfer such Covered Bonds (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 Covered Bonds 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 Covered Bonds and (ii) the last date on which the Relevant Issuer thereof or any affiliate of the Relevant Issuer was the beneficial owner of such Covered Bonds (or any predecessor of such Covered Bonds) 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 Relevant Issuer, ANZ New Zealand (in the case of Covered Bonds issued by ANZNIL) or any of their respective subsidiaries or a Dealer that is a party to 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 Covered Bonds issued by ANZNIL). It acknowledges that each Covered Bond will contain a legend substantially to the effect of the foregoing paragraph (a) and this paragraph (c);
- (d) acknowledges that the Registrar referred to herein will register the transfer of any Covered Bond resold or otherwise transferred by such purchaser pursuant to clause (c) of the foregoing paragraph (c) only upon receipt of an opinion of counsel satisfactory to the Relevant Issuer and ANZ New Zealand (in the case of Covered Bonds issued by ANZNIL);
- (e) that Covered Bonds initially offered to QIBs will be represented by one or more Rule 144A Global Covered Bonds, and that Covered Bonds offered in reliance on Regulation S will be represented by one or more Regulation S Global Covered Bonds;
- (f) 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 Covered Bonds on behalf of or with the assets of any such plan or (b) with respect to its purchase and holding of the Covered Bonds, it is eligible for a statutory or administrative exemption from the prohibited transaction rules of ERISA and the Code or, where applicable, any such similar law;
- (g) that the Covered Bonds in registered form, other than the Regulation S Global Covered Bonds, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT)

PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) TO A NON-U.S. PERSON IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144A FOR REALES OF THE SECURITY.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).

PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A;

- (a) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Covered Bonds prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Covered Bonds), it will do so only (i)(A) to a non-U.S. person in compliance with Rule 903 or 904 under the Securities Act or (B) to a QIB in compliance with Rule 144A and (ii) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE COVERED BONDS OF THE TRANCHE OF WHICH THIS COVERED BOND FORMS PART. IN ACCORDANCE WITH U.S. SECURITIES LAW, UNTIL THE EXPIRY OF THE PERIOD OF 40

DAYS AFTER THE LATER OF (i) THE DATE ON WHICH THE OFFERING OF THIS SECURITY COMMENCED TO PERSONS OTHER THAN DISTRIBUTORS IN RELIANCE ON REGULATIONS AND (ii) THE DATE OF ISSUANCE OF SUCH SECURITY, SALES MAY NOT BE MADE UNLESS MADE (I) OUTSIDE THE UNITED STATES PURSUANT TO RULE 903 OR 904 OF REGULATIONS UNDER THE SECURITIES ACT OR (II) TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN, AND IN TRANSACTIONS PURSUANT TO, RULE 144A UNDER THE SECURITIES ACT."; and

- (a) it acknowledges that the Issuer, the Dealers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements deemed to have been made by it are no longer accurate, it shall promptly notify the Issuer and the Dealer through which it purchased any Covered Bonds; and if it is acquiring any Covered Bonds 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 acknowledgements, representations and agreements on behalf of each such account.

Each person receiving this Prospectus 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 or incorporated by reference in this Prospectus, (ii) it has not relied on any Dealer or any person affiliated with any Dealer in connection with its investigation of the accuracy and completeness of such information or its investment decision and (iii) no person has been authorised to give any information or to make any representation concerning either Issuer, ANZ New Zealand (in the case of Covered Bonds issued by ANZNIL) or the Covered Bonds 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 authorised by such Issuer, ANZ New Zealand (in the case of Covered Bonds issued by ANZNIL) or any Dealer.

This Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and relevant implementing measures in the United Kingdom.

Notwithstanding anything to the contrary contained herein, each prospective investor (and each employee, representative or other agent of each prospective investor) may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and U.S. federal income tax structure (as such terms are used in Sections 6011, 6111 and 6112 of the Code and the Treasury Regulations promulgated thereunder) of the offering of the Covered Bonds and all materials of any kind (including opinions or other tax analyses) that are provided relating to such tax treatment and tax structure. This authorisation of tax disclosure is retroactively effective to the commencement of discussions with prospective investors regarding the transactions contemplated herein.

This Prospectus 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 authorised 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 Covered Bonds or the distribution of this Prospectus in any jurisdiction where such action is required.

The Covered Bonds are subject to restrictions on transferability and resale. Investors may not transfer or resell the Covered Bonds except as described in this Prospectus 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 Covered Bonds for an indefinite period of time during the life of such Covered Bonds.

Each of the Issuers, the Guarantor and the Covered Bond Guarantor accepts responsibility for the information contained in this document and to the best of the knowledge and belief of each of the Issuers, the Guarantor and the Covered Bond 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 Prospectus 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 Dealer or Dealers (if any) named as the stabilising manager(s) (or persons acting on behalf of any stabilising managers) in the relevant Final Terms may over-allot or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the stabilising manager(s) (or persons acting on behalf of a stabilising manager) will undertake stabilisation action. Any stabilisation 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 be ended 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 stabilisation action or over-allotment must be conducted by the relevant stabilising manager(s) (or person(s) acting on behalf of the stabilising manager(s)) in accordance with all applicable laws and rules.

All references to websites in this Prospectus, any Final Terms or any amendment or supplement hereto or thereto or in any document incorporated or deemed to be incorporated by reference in this Prospectus 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 Prospectus, unless specifically stated in this Prospectus or in any such document that all or any portion of such information is incorporated by reference in this Prospectus.

Dealers may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A is US\$100,000 (or the approximate equivalent in another Specified Currency).

While any Covered Bonds 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 Exchange Act, or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any QIB who holds any Covered Bond and any prospective purchaser of a Covered Bond who is a QIB designated by the holder of such Covered Bond, 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.

Selling Restrictions

United States

The Covered Bonds are not being registered under the Securities Act in reliance upon Regulation S under the Securities Act and the exemptions from registration provided by Section 4(a)(2) of the Securities Act and Rule 144A and Regulation D promulgated thereunder. The Covered Bonds are being offered hereby only (A) to QIBs in reliance on Rule 144A and (B) to non-U.S. persons (as defined in Regulation S) in offshore transactions in reliance upon Regulation S. The minimum principal amount of Covered Bonds 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 Covered Bonds of a relevant Tranche (or, in either case, the equivalent thereof in another currency or composite currency).

Prior to any issuance of Covered Bonds 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 Covered Bonds from them during the distribution compliance period (as defined in Regulation S) a confirmation or notice substantially to the following effect:

"The Covered Bonds 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 (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 Covered Bonds, an offer or sale of Covered Bonds 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 under the Securities Act or pursuant to another exemption from registration under the Securities Act.

There is no undertaking to register the Covered Bonds in the United States hereafter and they cannot be resold in the United States except pursuant to an effective registration statement or an exemption from the registration requirements of the Securities Act. Each purchaser of the Covered Bonds offered hereby in making its purchase shall be deemed to have made the acknowledgments, representations and agreements as set forth above under "Transfer Restrictions".

The Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. Treasury regulations. Each Dealer has agreed that it will not offer, sell or deliver a Covered Bond in bearer form within the United States or its possessions or to U.S. persons except as permitted by the Programme Agreement. Terms used in this paragraph have the meanings given to them by the Code and U.S. Treasury regulations thereunder.

In respect of Bearer Covered Bonds where TEFRA D is specified in the applicable Final Terms:

- except to the extent permitted under U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D) (the "**D Rules**"), each Dealer has (i) represented, warranted and agreed that it has not offered or sold, and agrees that during the restricted period it will not offer or sell, Bearer Covered Bonds to a person who is within the United States or its possessions or to a United States person, and (ii) represented, warranted and agreed that it has not delivered and agrees that it will not deliver within the United States or its possessions Bearer Definitive Covered Bonds that are sold during the restricted period;
- each Dealer has represented, warranted and agreed that it has and that throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bearer Covered Bonds are aware that such Bearer Covered Bonds may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;
- each Dealer which is a United States person has represented, warranted and agreed that it is acquiring Bearer Covered Bonds for purposes of resale in connection with their original issuance and that if it retains Bearer Covered Bonds for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(6);
- with respect to each affiliate that acquires Bearer Covered Bonds from a Dealer for the purpose of offering or selling such Bearer Covered Bonds during the restricted period, such Dealer has repeated and confirmed the representations, warranties and agreements contained in (a), (b), (c) and (e) on such affiliate's behalf; and
- each Dealer has represented, warranted and agreed that it will obtain from any distributor (within the meaning of U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(4)(ii)) that purchases any Bearer Covered Bonds from it pursuant to a written contract with such Dealer (except a distributor that is one of its affiliates or is another Dealer), for the benefit of the Relevant Issuer and each other Dealer, the representations and warranties contained in, and such distributor's agreement to comply with, the provisions of (a), (b), (c) and (d) of this paragraph insofar as they relate to the D Rules, as if such distributor were a Dealer hereunder.

Terms used in the above paragraph have the meanings given to them by the Code, as amended and the U.S. Treasury regulations thereunder (the Regulations), including the D Rules.

In respect of Bearer Covered Bonds where TEFRA C is specified in the applicable Final Terms, each Dealer has represented that it understands that under U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(C) (the

C Rules) such Bearer Covered Bonds must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer has represented, warranted and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, such Bearer Covered Bonds within the United States or its possessions in connection with their original issuance. Further, each Dealer has represented, warranted and agreed in connection with the original issuance of such Bearer Covered Bonds that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if either the Dealer or such prospective purchaser is within the United States or its possessions or otherwise involve a U.S. office of the Dealer in the offer or sale of such Bearer Covered Bonds. Terms used in this paragraph have the meanings given to them by the Code and the Regulations, including the C Rules.

European Economic Area

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression "retail investor" means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
 - (ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the Prospectus Directive; and
- (b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Covered Bonds which are the subject of an offering contemplated by the Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Issuers or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "**offer of Covered Bonds to the public**" in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto,

including the 2010 PD Amending Directive), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) 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 Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to ANZ New Zealand, ANZNIL or the Covered Bond Guarantor;
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom; and
- (c) in relation to any Covered Bonds which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Covered Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Covered Bonds would otherwise constitute a contravention of Section 19 of FSMA by the relevant Issuer.

Australia

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that in connection with the distribution of the Covered Bonds, it:

- (a) will not make any offer or invitation in Australia or any offer or invitation which is received in Australia in relation to the issue, sale or purchase of any Covered Bonds unless the offeree is required to pay at least A\$500,000 for the Covered Bonds or its foreign currency equivalent (in either case disregarding amounts, if any, lent by the Issuer or other person offering the Covered Bonds or its associates (within the meaning of those expression in Part 6D.2 of the Corporations Act 2001 of Australia (the "**Corporations Act**")), or it is otherwise an offer or invitation for which no disclosure is required to be made under Part 6D.2 and Chapter 7 of the Corporations Act and does not constitute an offer to a "retail client" as defined for the purposes of section 761G of the Corporations Act; and
- (b) has not circulated or issued and will not circulate or issue a disclosure document relating to the Covered Bonds in Australia or received in Australia which requires lodgement with Australian Securities and Investments Commission, ASX Limited (or any successor thereto) or any other regulatory body or agency in Australia.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"), by means of any document, any Covered Bonds (except for Covered Bonds 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) it has not issued, or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Covered Bonds, 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 Covered Bonds 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 Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**") and, accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Covered Bonds, directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, "**Japanese Person**" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

France

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered or sold and will not offer or sell directly or indirectly, any Covered Bonds to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Prospectus, the relevant Final Terms or any other offering material relating to the Covered Bonds, and that such offers, sales and distributions have been and will be made in France only to (a) persons providing the investment service of portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), and/or (b) qualified investors (investisseurs qualifiés), acting for their own account other than individuals, all as defined in, and in accordance with Articles L.411-1, L.411-2, D.411-1, D.744-1, D754-1, and D-764-1 of the French Code monétaire et financier. Accordingly, the offer of Covered Bonds does not require a prospectus to be submitted to the Autorité des marchés financiers ("**AMF**") for its prior approval, and this Prospectus has not been approved by the AMF.

The direct or indirect resale of Covered Bonds to the public in France may be made only as provided by and in accordance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Code monétaire et financier.

New Zealand

No action has been or will be taken by any Issuer, the Guarantor, the Covered Bond Guarantor or the Dealers which would permit a public or regulated offering of any of the Covered Bonds, or possession or distribution of any offering material in relation to the Covered Bonds, in New Zealand.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or delivered and will not directly or indirectly offer, sell or deliver any Covered Bond, and it will not distribute any offering memorandum or advertisement in relation to any offer of Covered Bonds 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 ("**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) Covered Bonds 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 Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Covered Bonds to persons whom it believes to be persons to whom any amounts payable on the Covered Bonds 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 Dealer (in which event the Dealer shall provide details thereof to the Relevant Issuer or to a Paying Agent).

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that the Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Covered Bonds may not be circulated or distributed, nor may the Covered Bonds 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(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA")) under Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1), or any person pursuant to 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 provision of the SFA.

Where the Covered Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person who is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(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 Covered Bonds pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor (under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) 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;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes this Prospectus, any Drawdown Prospectus or any Final Terms and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuers, the Guarantor, the Covered Bond Guarantor nor any of the other Dealers shall have any responsibility therefor.

None of the Issuers, the Guarantor, the Covered Bond Guarantor or any of the Dealers has represented that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the Relevant Dealer(s) will be required to comply with such other restrictions as the Issuer and the Relevant Dealer(s) shall agree as a term of issue and purchase.

LEGAL MATTERS

Certain matters under New York law will be passed upon for ANZ New Zealand and ANZNIL by its United States counsel, Sullivan & Cromwell, Melbourne, Australia. The validity of the Covered Bonds under English law will be passed upon for ANZ New Zealand and ANZNIL by its English counsel, Ashurst LLP, London, England. Certain matters under New Zealand law will be passed upon for ANZ New Zealand and ANZNIL by its 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 Covered Bonds) and the Bond Trustee in connection with the issuance and sale of any particular Covered Bond, the specific terms of Covered Bonds and other matters which may affect the validity of Covered Bonds but which cannot be ascertained at the date of such opinions.

INDEPENDENT AUDITORS

The financial statements of ANZ New Zealand and of the ANZ New Zealand Group as at 30 September 2017 and 30 September 2016 have been audited by KPMG of 10 Customhouse Quay, P.O. Box 996, Wellington, New Zealand, independent auditors of ANZ New Zealand and of the ANZ New Zealand Group for that period, and unmodified opinions have been reported thereon. KPMG has no material interest in ANZ New Zealand.

With respect to the unaudited interim financial statements of ANZ New Zealand and its subsidiaries as at and for the six month period ended 31 March 2018, included herein, the independent auditors have reported that they applied limited procedures in accordance with professional standards in New Zealand for a review of such financial statements. However, their separate report included herein states that they did not audit and they do not express an opinion on those interim financial statements. Accordingly, the degree of reliance on their report on such financial statements should be restricted in light of the limited nature of the review procedures applied.

The financial statements of ANZNIL as at 30 September 2017 and 30 September 2016 have been audited by KPMG of 10 Customhouse Quay, P.O. Box 996, Wellington, New Zealand, independent auditors of ANZNIL for that period, and unmodified opinions have been reported thereon. KPMG has no material interest in ANZNIL.

With respect to the unaudited interim financial statements of ANZNIL as at and for the six month period ended 31 March 2018, included herein, the independent auditors have reported that they applied limited procedures in accordance with professional standards in New Zealand for a review of such financial statements. However, their separate report included herein states that they did not audit and they do not express an opinion on those interim financial statements. Accordingly, the degree of reliance on their report on such financial statements should be restricted in light of the limited nature of the review procedures applied.

The financial statements of the ANZNZ Covered Bond Trust have been audited for the financial year ended 30 September 2017 and 30 September 2016 by KPMG of 10 Customhouse Quay, P.O. Box 996, Wellington, New Zealand, independent auditors of the ANZNZ Covered Bond Trust for that period, and unmodified opinions have been reported thereon. KPMG has no material interest in the ANZNZ Covered Bond Trust.

KPMG partners are members or affiliate members of Chartered Accountants Australia and New Zealand.

GENERAL INFORMATION

Authorisation

Each Issuer has obtained all necessary consents, approvals and authorisations in connection with the establishment, implementation and operation of the Programme and the issue and performance of Covered Bonds issued by it. The establishment, implementation and operation of the Programme and the issue of the Covered Bonds by it thereunder have been duly authorised (i) by resolutions of the board of directors of ANZ New Zealand on 22 November 2010, 24 April 2012 and 22 April 2016; (ii) by resolutions of the board of directors of ANZNIL on 17 December 2010, 15 May 2012 and 29 June 2016; and (iii) by resolutions of the shareholder of ANZNIL on 22 November 2010 and 15 May 2012. The establishment, implementation and operation of the Programme and the giving of the Covered Bond Guarantee have been duly confirmed and authorised by resolutions of the Covered Bond Guarantor on 27 January 2011 and 18 April 2012.

Listing of Covered Bonds

The admission of the Programme to listing on the Official List of the FCA and to trading on the regulated market of the London Stock Exchange is expected to take effect on or around 8 August 2018. The price of the Covered Bonds 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 of Covered Bonds intended to be admitted to trading on the regulated market of the London Stock Exchange will be so admitted to trading upon submission to the London Stock Exchange of the relevant Final Terms and any other information required by the London Stock Exchange, subject to the issue of the relevant Covered Bonds. 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.

However, Covered Bonds may be issued pursuant to the Programme which will not be admitted to listing, trading and/or quotation by the London Stock Exchange or any other listing authority, stock exchange and/or quotation system or which will be admitted to listing, trading and/or quotation by such listing authority, stock exchange and/or quotation system as the Relevant Issuer and the Relevant Dealer(s) may agree.

Documents Available

For the life of this Prospectus or whilst any Covered Bonds are 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 Principal Paying Agent and the Relevant Issuer:

- (a) the constitutive documents of the Relevant Issuer, the Guarantor and the Covered Bond Guarantor;
- (b) the Bond Trust Deed (which includes the Guarantee, the Covered Bond Guarantee and the forms of the Global Covered Bonds, the definitive Covered Bonds, the Coupons, the Receipts and the Talons);
- (c) the Principal Agency Agreement;
- (d) the Programme Agreement;
- (e) the Distribution Agreement;
- (f) any Final Terms relating to Covered Bonds of the Relevant Issuer which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system. (In the case of any Covered Bonds which are not admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the relevant Final Terms will only be available for inspection by the relevant Covered Bondholders);
- (g) a copy of this Prospectus, together with any supplement to this Prospectus or further Prospectus and any documents incorporated by reference; and
- (h) copies of the most recent publicly available annual audited consolidated and/or non-consolidated (as applicable) accounts of each of the Issuers and their subsidiaries incorporated by reference into this Prospectus, beginning with the annual audited consolidated and/or non-consolidated (as applicable) accounts of ANZ New Zealand and ANZNIL for the financial years ended 30 September 2017 and 2016 (see "*Documents Incorporated by Reference*" above for further details).

The Prospectus and the Final Terms for Covered Bonds that are listed on the Official List of the FCA and admitted to trading on the regulated market of the London Stock Exchange will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com.

Clearing Systems

The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The Common Code and the International Securities Identification Number ("**ISIN**") for each Tranche of Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Relevant Issuer may make an application for any Covered Bonds in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of such Registered Covered Bonds, together with the relevant ISIN and (if applicable) common code, will be specified in the applicable Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg, Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America. The address of any alternative clearing system will be specified in the applicable Final Terms.

Significant or Material Change

Since 31 March 2018 (being the date of its last published unaudited consolidated financial statements), there has been no significant change in the financial position of ANZ New Zealand and its subsidiaries

taken as a whole. Since 30 September 2017, there has been no material adverse change in the prospects of ANZ New Zealand and its subsidiaries taken as a whole.

Since 31 March 2018, there has been no significant change in the financial or trading position of ANZNIL. Since 30 September 2017, there has been no material adverse change in the prospects of ANZNIL.

Since 30 September 2017, there has been no significant change in the financial or trading position of the Trust or the Covered Bond Guarantor. Since 30 September 2017, there has been no material adverse change in the prospects of the Trust or the Covered Bond Guarantor.

Litigation

Save as disclosed in the "*Risk Factors*" section of this Prospectus under the heading "*Litigation and contingent liabilities may adversely affect the ANZ New Zealand Group's business, operations and financial condition*" at page 48 of this Prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either Issuer or the Guarantor is aware) during the 12 months before the date of this Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of either Issuer or the Guarantor or, in respect of ANZ New Zealand only, the Issuer and its subsidiaries taken as a whole.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Covered Bond Guarantor or the Trust is aware) during the 12 months before the date of this Prospectus which may have, or have had in the recent past, significant effects on the Covered Bond Guarantor's or the Trust's financial position or profitability.

Reports

The Bond Trust Deed provides that the Bond Trustee may rely on reports or other information from professional advisers or other experts in accordance with the provisions of the Bond Trust Deed, whether or not any such report or other information, or engagement letter or other document entered into by the Bond Trustee and the relevant person in connection therewith, contains any monetary or other limit on the liability of the relevant person.

Post-issuance information

The Issuers do not intend to provide any post-issuance information in relation to any issue of Covered Bonds other than the monthly investor reports which are available online from the Issuer's website, detailing, *inter alia*, compliance with the Asset Coverage Test. In addition, the Issuers may prepare one or more supplements to this Prospectus to reflect, among other things, developments in their business or affairs.

Legal Entity Identifiers

The Legal Entity Identifier of each Issuer is as follows:

- (i) ANZ Bank New Zealand Limited: HZSN7FQBPO5IEWYIGC72; and
- (ii) ANZ New Zealand (Int'l) Limited: 213800VD256NU2D97H12.

Legends

The following legend must appear on every form of Covered Bond, Receipt, Coupon or Talon.

"IF THE HOLDER OF ANY PART HEREOF IS A RESIDENT OF NEW ZEALAND FOR TAX PURPOSES OR OTHERWISE IS A PERSON THE PAYMENT OF INTEREST (AS DEFINED FOR NEW ZEALAND INCOME TAX PURPOSES) TO WHOM WILL BE SUBJECT TO NEW ZEALAND RESIDENT WITHHOLDING TAX, THEN A DEDUCTION FOR NEW ZEALAND RESIDENT WITHHOLDING TAX MAY BE MADE FROM ANY AMOUNT PAYABLE UNDER THIS [TEMPORARY/ PERMANENT/ GLOBAL/ DEFINITIVE/ REGISTERED/ COVERED BOND/ COUPON/ TALON/ RECEIPT] WHICH IS SUBJECT TO NEW ZEALAND RESIDENT

WITHHOLDING TAX UNLESS ANY SUCH HOLDER CERTIFIES THAT IT HOLDS A VALID CERTIFICATE OF EXEMPTION FOR NEW ZEALAND RESIDENT WITHHOLDING TAX PURPOSES AND PROVIDES THE HOLDER'S NEW ZEALAND TAX FILE NUMBER.

ON PRESENTATION OF THIS [TEMPORARY/PERMANENT/GLOBAL/DEFINITIVE/ REGISTERED COVERED BOND/ COUPON/TALON/RECEIPT] FOR PAYMENT OR, IF APPLICABLE, UPON THE RECEIPT OF SUCH PAYMENT, THE HOLDER OF ANY PART HEREOF HEREBY CERTIFIES THAT IF IT IS A RESIDENT OF NEW ZEALAND FOR TAX PURPOSES OR OTHERWISE IS A PERSON THE PAYMENT OF INTEREST TO WHOM WILL BE SUBJECT TO NEW ZEALAND RESIDENT WITHHOLDING TAX, THAT IT HOLDS A VALID CERTIFICATE OF EXEMPTION FOR NEW ZEALAND RESIDENT WITHHOLDING TAX PURPOSES."

GLOSSARY

"**A&I Form**" means any client authority and instruction form for an e-dealing that conforms with the Land Transfer Act 1952 and is approved by the New Zealand Law Society and the Registrar General of Land of New Zealand.

"**Account Bank**" means ANZ New Zealand in its capacity as Account Bank pursuant to the Account Bank Agreement or such other account bank appointed pursuant to the Account Bank Agreement from time to time.

"**Account Bank Agreement**" means the account bank agreement entered into on the Programme Date between the Covered Bond Guarantor, the All Moneys Mortgage Trustee, the All Moneys Mortgage Beneficiaries, the Trust Manager, the Account Bank, the Calculation Manager and the Security Trustee.

"**Accrued Interest**" means in respect of a Housing Loan and a Cut-Off Date, the aggregate of all interest accrued but not yet due and payable on the Housing Loan from (but excluding) the Housing Loan Scheduled Payment Date immediately preceding the Cut-Off Date to (and including) the Cut-Off Date.

"**Acquisition Cut-Off Date**" means, in respect of a Housing Loan to be acquired by the Covered Bond Guarantor, the date specified in the relevant notice as the date on which the Housing Loan is selected for acquisition with the actual transfer occurring on the Transfer Date.

"**Additional Business Centre**" means, in relation to a Series of Covered Bonds, the Additional Business Centre as specified in the applicable Final Terms.

"**Adjusted Aggregate Housing Loan Amount**" has the meaning given to it on page 204.

"**Adjusted Required Redemption Amount**" has the meaning given to it on page 197.

"**Agents**" means the Principal Paying Agent, the Exchange Agent, each Transfer Agent, each Paying Agent and each Registrar, and each an "**Agent**".

"**All Moneys Mortgage**" means a Mortgage that secures or purports to secure the repayment of Associated Debt as well as a Housing Loan.

"**All Moneys Mortgage Beneficiaries**" means in relation to the All Moneys Mortgage Trust the Covered Bond Guarantor and the Seller as beneficiaries of the All Moneys Mortgage Trust and "All Moneys Mortgage Beneficiary" means any one of them.

"**All Moneys Mortgage Trust**" means, in respect of an All Moneys Mortgage, the trust established or, as the case may be, to be established pursuant to the Mortgage Sale Agreement on the date that such All Moneys Mortgage is sold by the Seller to the Covered Bond Guarantor.

"**All Moneys Mortgage Trust Account**" means the account in the name of the Covered Bond Guarantor held at the Account Bank for the Covered Bond Guarantor and maintained pursuant to the terms of the Account Bank Agreement and such additional or replacement bank account of the Covered Bond Guarantor designated as such, as may, from time to time, be in place pursuant to the terms of the Account Bank Agreement and the Mortgage Sale Agreement.

"**All Moneys Mortgage Trust Property**" means, in relation to an All Moneys Mortgage, the Covered Bond Guarantor's whole right, title, benefit and interest in and to such All Moneys Mortgage and the other Related Security and the proceeds of enforcement of such All Moneys Mortgage and other Related Security.

"**All Moneys Mortgage Trustee**" means the Covered Bond Guarantor in its capacity as trustee of the All Moneys Mortgage Trust.

"**Amortisation Test**" has the meaning given to it on page 207.

"**Amortisation Test Aggregate Housing Loan Amount**" has the meaning given to it on page 207.

"**Amortisation Test Current Principal Balance**" has the meaning given to it on page 207.

"**Annual Accounting Date**" means in respect of the Trust, 30 September in each year or such other date as the Covered Bond Guarantor (acting on the directions of the Trust Manager) may determine.

"**ANZBGL**" means Australia and New Zealand Banking Group Limited.

"**ANZCCL**" means ANZ Capel Court Limited (ABN 30 004 768 807).

"**ANZ Group**" means Australia and New Zealand Banking Group Limited and its subsidiaries.

"**ANZ New Zealand Group**" means ANZ New Zealand together with its consolidated subsidiaries (including, among others, ANZNIL).

"**ANZ New Zealand**" means ANZ Bank New Zealand Limited.

"**ANZ Wealth**" means ANZ Wealth New Zealand Limited, a wholly-owned subsidiary of ANZ New Zealand, formerly known as OnePath Holdings (NZ) Limited.

"**ANZNIL**" means ANZ New Zealand (Int'l) Limited.

"**ANZ Share Investing**" means Share Investing Limited, a wholly-owned subsidiary of ANZBGL, formerly known as ETrade Australia Limited.

"**Arranger**" means each of ANZ Bank New Zealand Limited and Barclays Bank PLC.

"**Arrears of Interest**" means, in respect of a Housing Loan and a Cut-Off Date, interest (other than interest that has been capitalised or interest that is Accrued Interest) on that Housing Loan which is currently due and payable and unpaid on that date.

"**Asset Class Designation**" means the designation (if any) of the Programme to a particular class of registered covered bond programme by the RBNZ in accordance with the RBNZ Act.

"**Asset Coverage Reports**" means the monthly reports in a form agreed from time to time between the parties to the Management Agreement, and each an "**Asset Coverage Report**".

"**Asset Coverage Test**" has the meaning given to it on page 204.

"**Asset Coverage Test Breach Notice**" means the notice required to be served by the Bond Trustee if the Asset Coverage Test is not satisfied on two consecutive Determination Dates.

"**Asset Monitor**" means KPMG whose head office is at 10 Customhouse Quay, Wellington, 6140, New Zealand or such replacement asset monitor appointed pursuant to the Asset Monitor Agreement from time to time.

"**Asset Monitor Agreement**" means the asset monitor agreement entered into on the Programme Date, between the Asset Monitor, the Covered Bond Guarantor, the Trust Manager, the Calculation Manager, the Issuers, the Guarantor, the Bond Trustee and the Security Trustee.

"**Asset Monitor Report**" means the results of the tests of arithmetical accuracy of the calculations in relation to the Asset Coverage Test and the Amortisation Test, as applicable, conducted by the Asset Monitor in accordance with the Asset Monitor Agreement to be delivered to the Calculation Manager, the Covered Bond Guarantor, the Trust Manager, the Issuers, the Guarantor, the Bond Trustee and the Security Trustee in accordance with the Asset Monitor Agreement.

"**Asset Percentage**" has the meaning given to it on page 207.

"**Asset Percentage Adjusted Housing Loan Balance Amount**" has the meaning given to it on page 205.

"**Asset Pool**" means the pool of assets owned at any time by the Covered Bond Guarantor which back the payment of claims attached to the Covered Bonds and may comprise the following items:

- (a) the Housing Loan Portfolio and the Related Securities held by the Covered Bond Guarantor;

- (b) Authorised Investments;
- (c) Substitution Assets;
- (d) the rights of the Covered Bond Guarantor in the Programme Documents and the Trust Accounts;
- (e) the benefit of all representations, warranties, undertakings, covenants, indemnities and promises made by any party in favour of the Covered Bond Guarantor under the Programme Documents; and
- (f) amounts derived or accrued from any of the assets referred to in the preceding paragraphs of this definition.

"**Asset Register**" means the register of assets maintained in accordance with the Asset Register Procedures which contains an up-to-date and accurate record of the assets of the Trust.

"**Asset Register Procedures**" means the document produced by the Calculation Manager that specifies the procedures and internal controls that ensure:

- (a) the up-to-date and accurate keeping of the Asset Register; and
- (b) that the assets in the Asset Pool remain consistent with any Asset Class Designation,

which are applied by the Calculation Manager from time to time and which may be amended by the Calculation Manager from time to time.

"**Asset Register Report**" means the results of the assessments of the Calculation Manager's compliance with its obligations relating to the Asset Register conducted by the Asset Monitor in accordance with the Asset Monitor Agreement to be delivered to the Calculation Manager, the Covered Bond Guarantor, the Trust Manager, the Issuers, the Guarantor, the Bond Trustee and the Security Trustee in accordance with the Asset Monitor Agreement.

"**Asset Registry Services**" means the asset registry services to be provided by the Calculation Manager pursuant to the Management Agreement.

"**Associated Debt**" means the indebtedness which a Borrower owes or may owe to the Seller from time to time and which (i) is not a Housing Loan in the Housing Loan Portfolio or (ii) is not transferable to the Covered Bond Guarantor pursuant to the terms of the Mortgage Sale Agreement.

"**Authorised Institution**" means a registered bank as defined in the RBNZ Act.

"**Authorised Investments**" means NZ dollar demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) (which may include deposits into any account which earns a rate of interest related to the Bank Bill Rate) provided that in all cases such investments have a maturity date of 30-days or less and mature on or before the next following Trust Payment Date and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an Authorised Institution) are rated at least "P-1" by Moody's and "F1+" by Fitch or which are otherwise acceptable to the Rating Agencies (if they are notified in advance) to maintain the then current rating of the Covered Bonds.

"**Authorised Signatory**" in relation to a Transaction Party, means an officer of the Transaction Party, or such other person appointed by the Transaction Party to act as its authorised signatory and notified to the other Transaction Parties.

"**Available Principal Receipts**" means on a Determination Date, an amount equal to the aggregate of (without double counting):

- (a) the amount of Housing Loan Principal Receipts collected by the Servicer during the immediately preceding Collection Period and credited, or to be credited on the immediately following Trust Payment Date to the Principal Ledger on the GIC Account;

- (b) the proceeds from any sale of Housing Loans pursuant to the terms of the Establishment Deed or the Mortgage Sale Agreement that are to be credited on the immediately following Trust Payment Date to the Principal Ledger on the GIC Account but excluding any amount of principal received or to be received on that date under the Swap Agreements;
- (c) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any Demand Loan Advance (where such proceeds have not been applied to acquire New Housing Loan Portfolios or to invest in Substitution Assets), (ii) the proceeds from any sale of Housing Loans pursuant to the terms of the Establishment Deed or the Mortgage Sale Agreement but excluding any amount of principal received under the Swap Agreements, (iii) any Excess Proceeds and (iv) any amount credited to the GIC Account under paragraph (h) of the Pre-Acceleration Principal Priority of Payments;
- (d) the amount of any termination payment received from a Swap Provider which is not applied to acquire a replacement Swap for the relevant terminated Swap and the amount of any premium received from a replacement Swap Provider which is not applied to make a termination payment; and
- (e) following repayment of any Hard Bullet Covered Bonds, any amounts standing to the credit of the Pre-Maturity Ledger (unless such amounts are required to be retained in accordance with clause 9.11 of the Establishment Deed),

but excluding

- (f) Swap Collateral Excluded Amounts which shall be applied in accordance with the terms of the relevant Swap Agreements.

"Available Revenue Receipts" means on a Determination Date, an amount equal to the aggregate of:

- (a) the amount of Housing Loan Revenue Receipts collected by the Servicer during the immediately preceding Collection Period and credited, or to be credited on the immediately following Trust Payment Date, to the Revenue Ledger on the GIC Account;
- (b) the proceeds from any sale of Housing Loans (including, but not limited to, Selected Housing Loans) pursuant to the terms of the Establishment Deed or the Mortgage Sale Agreement to the extent that such proceeds comprise Accrued Interest or Arrears of Interest (if any) that have been, or are to be, on the immediately following Trust Payment Date, credited to the Revenue Ledger on the GIC Account;
- (c) other net income of the Covered Bond Guarantor received during the immediately preceding Collection Period, including all amounts of interest received on the Trust Accounts, the Substitution Assets and Authorised Investments, the amount paid to the Covered Bond Guarantor under clause 5.4 of the Servicing Agreement but excluding amounts received by the Covered Bond Guarantor under the Swap Agreements;
- (d) prior to the service on the Covered Bond Guarantor of a Notice to Pay or an Asset Coverage Test Breach Notice, amounts standing to the credit of the Reserve Fund as at the Determination Date in excess of the Reserve Fund Required Amount;
- (e) following the service on the Covered Bond Guarantor of a Notice to Pay or an Asset Coverage Test Breach Notice, amounts standing to the credit of the Reserve Fund as at the Determination Date; and
- (f) any other revenue receipts not referred to in paragraphs (a) to (e) (inclusive) above received during previous Collection Periods and standing to the credit of the Revenue Ledger on the GIC Account,

but excluding

- (g) Third Party Amounts, which shall be paid on receipt in cleared funds to the Seller; and

- (h) Swap Collateral Excluded Amounts which shall be applied in accordance with the terms of the relevant Swap Agreements.

"**BBSW**" means the Australian Bank Bill Swap Rate.

"**BBSW Covered Bond**" means a Floating Rate Covered Bond denominated in Australian dollars.

"**BBSW Reuters Page**" has the meaning given to it in the Conditions.

"**BKBM**" means the New Zealand Bank Bill reference rate (FRA).

"**BKBM Covered Bond**" means a Floating Rate Covered Bond denominated in New Zealand dollars.

"**BKBM Reuters Page**" has the meaning given to it in the Conditions.

"**Bank Bill Rate**" means in relation to any period:

- (a) the bid settlement rate (rounded, if necessary, to the nearest four decimals) as displayed at or about 10:45 a.m. on the first day of that period on the Reuters Monitor Screen page BKBM FRA (or its successor page) for bank-accepted bills of exchange having a term approximately equal to that period; or
- (b) if there is no such rate displayed for bank bills of exchange having a term approximately equal to that period, then the average of the rates quoted by the Reference Banks as being their respective buy rates for such bank-accepted bills of exchange at or about that time on that date; or
- (c) if the rate cannot be determined pursuant to paragraph (a) or (b) above, the rate per annum reasonably determined by the Account Bank.

"**Bearer Covered Bonds**" means Covered Bonds in bearer form.

"**Bearer Definitive Covered Bonds**" has the meaning given to it in the Conditions.

"**Bearer Global Covered Bonds**" means together, the Temporary Bearer Global Covered Bond and the Permanent Bearer Global Covered Bond, and Bearer Global Covered Bond means either one of them.

"**Beneficiaries**" means the Residual Capital Beneficiary and Residual Income Beneficiary, and Beneficiary means either of them.

"**Bond Trust Deed**" means the trust deed entered into on the Programme Date, between the Issuers, the Guarantor, the Covered Bond Guarantor and the Bond Trustee.

"**Bond Trustee**" means Deutsche Trustee Company Limited, in its capacity as bond trustee under the Bond Trust Deed together with any additional or replacement bond trustee appointed from time to time in accordance with the terms of the Bond Trust Deed as amended or supplemented from time to time.

"**Borrower**" means in relation to a Housing Loan, the individual or individuals specified as such in the relevant Mortgage together with the individual or individuals (if any) from time to time assuming an obligation to repay such Housing Loan or any part of it.

"**Business Day**" means:

- (a) a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments generally in London, Auckland and Wellington; and
- (b) in the case of:
- (i) a Specified Currency other than Euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments generally in the Principal Financial Centre (as defined in the Conditions) for such Specified Currency; or

- (ii) in the case of Euro, a TARGET2 Business Day (as defined in the Conditions); and
- (c) in the case of one or more Additional Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in the Additional Business Centres or, if no currency is indicated, generally in each of the Additional Business Centres,

unless otherwise specified in the relevant applicable Final Terms.

"Calculation Agent" means in relation to all or any Series of the Covered Bonds, the person initially appointed as calculation agent in relation to such Covered Bonds by the Issuers, the Guarantor and the Covered Bond Guarantor pursuant to the Principal Agency Agreement or such other person specified in the applicable Final Terms or, if applicable, any successor or separately appointed calculation agent in relation to all or any Series of the Covered Bonds.

"Calculation Management Services" means the calculation management services to be provided by the Calculation Manager pursuant to the Management Agreement.

"Calculation Manager" means ANZ New Zealand, in its capacity as calculation manager under the Management Agreement.

"Calculation Manager Termination Event" means:

- (a) default is made by the Calculation Manager in the performance or observance of any of its covenants and obligations under the Management Agreement, which the Security Trustee considers (acting on the directions of (if there are Covered Bonds outstanding) the Bond Trustee or (if there are no Covered Bonds outstanding) the Majority Secured Creditors) is materially prejudicial to the interests of the Covered Bondholders and such default continues unremedied for a period of 20 Local Business Days after the earlier of the Calculation Manager becoming aware of such default and receipt by the Calculation Manager of written notice from the Security Trustee requiring the same to be remedied; or
- (b) an Insolvency Event occurs in respect of the Calculation Manager.

"Cash Management Services" means the cash management services to be provided by the Trust Manager pursuant to the Management Agreement.

"Cash Redraw" means, in respect of a Housing Loan in the Housing Loan Portfolio, a re-advance by the Seller of some or all of the Overpayments that the Borrower has made under the Housing Loan.

"Charged Other Property" has the meaning given to it on page 220.

"Charged Personal Property" has the meaning given to it on page 219.

"Charged Property" means the Charged Other Property and Charged Personal Property.

"Circular 230" means Treasury Department Circular 230.

"Clearing Systems" means the settlement system operated by DTC, the settlement system operated by Euroclear, the settlement system operated by Clearstream, Luxembourg and any other settlement systems operated by any Alternative Clearing Systems.

"Clearstream, Luxembourg" means Clearstream Banking, *société anonyme*.

"Code" means the U.S. Internal Revenue Code of 1986, as amended.

"Collection Period" means each calendar month. However, the first Collection Period commences on (but excludes) the first Acquisition Cut-Off Date and ends on the last day of the calendar month in which the related Transfer Date occurs.

"Common Safekeeper" means a common safekeeper for Euroclear and Clearstream, Luxembourg.

"**Common Depository**" means a common depository for Euroclear and Clearstream, Luxembourg and/or any other agreed clearing system.

"**Conditions**" means the terms and conditions of the Covered Bonds.

"**Contingent Covered Bond**" means a Covered Bond treated as a contingent payment debt instrument for U.S. federal income tax purposes.

"**Couponholders**" has the meaning given to it in the Conditions.

"**Coupons**" has the meaning given to it in the Conditions.

"**Covered Bond Guarantee**" means the unconditional and irrevocable guarantee by the Covered Bond Guarantor in the Bond Trust Deed for the payment of an amount equal to the Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment.

"**Covered Bond Guarantee Acceleration Notice**" means, following the occurrence of a Covered Bond Guarantor Event of Default which is continuing, a notice in writing given by the Bond Trustee to the Issuers, the Guarantor and the Covered Bond Guarantor, that each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuers and the Guarantor (if not already due and repayable against it following an Issuer Event of Default) and as against the Covered Bond Guarantor, thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in and in accordance with the Bond Trust Deed and thereafter the Security shall become enforceable.

"**Covered Bond Guarantor**" means ANZNZ Covered Bond Trust Limited, solely in its capacity as trustee of the Trust.

"**Covered Bond Guarantor Event of Default**" has the meaning given to it in Condition 9(b) (*Covered Bond Guarantor Events of Default*).

"**Covered Bondholders**" has the meaning given to it in the Conditions.

"**Covered Bond Swap**" means each currency swap and/or interest rate swap transaction entered into between the Covered Bond Guarantor, the Trust Manager, the Security Trustee and a Covered Bond Swap Provider with respect to each Series of Covered Bonds.

"**Covered Bond Swap Agreement**" means a Swap Agreement governing a Covered Bond Swap.

"**Covered Bond Swap Provider**" means the covered bond swap provider appointed from time to time under the Covered Bond Swaps together with any transferee or successor thereto.

"**Covered Bonds**" means the covered bonds issued or to be issued pursuant to the Programme Agreement or the Distribution Agreement and which are or are to be constituted under the Bond Trust Deed, which covered bonds may be represented by a Global Covered Bond or any Definitive Covered Bond and includes any replacements or a Covered Bond issued pursuant to Condition 12 (*Replacement of Covered Bonds, Receipts, Coupons and Talons and Exchange of Talons*), and each a Covered Bond.

"**Covered Bonds Ledger**" means the ledger of such name to record amounts allocated to a Tranche or Series of Covered Bonds in accordance with the provisions of the Establishment Deed.

"**Current Principal Balance**" means in relation to any Housing Loan in the Housing Loan Portfolio as at any given date, the principal balance of that Housing Loan to which the Seller applies the relevant interest rate to and at which interest on that Housing Loan accrues interest, and is the aggregate (but avoiding double counting) of:

- (a) the original principal amount advanced to the relevant Borrower and any further amount advanced on or before any given date to the relevant Borrower under that Housing Loan secured or intended to be secured by the Related Security; and
- (b) the amount of any Cash Redraws and Further Advances secured or purported to be secured by the Related Security; and

(c) any interest or expenses that have been capitalised,

less any repayment or payment of any of the foregoing made on or before the end of the Local Business Day immediately preceding that given date.

"Custodian" means any custodian with whom Registered Global Covered Bonds have been deposited.

"Cut-Off Date" means, in relation to a Housing Loan, either the Acquisition Cut-Off Date or the Repurchase Cut-Off Date, as the case may be.

"Dealer" and **"Dealers"** have the meanings given to them in the Programme Agreement and/or the Distribution Agreement (as applicable).

"Deed of Accession" means any deed of accession entered into between, amongst others, the Covered Bond Guarantor, the Trust Manager and Security Trustee on the terms substantially set out in the form set out in schedule 1 of the Security Deed.

"Defaulted Housing Loan" means any Housing Loan in the Housing Loan Portfolio which is more than three months in arrears.

"Deferred Consideration" means the consideration payable to the Seller in accordance with the Mortgage Sale Agreement in respect of the Housing Loans and Related Security from time to time, which is payable after making payments of a higher order of priority as set out in the applicable Priority of Payments.

"Definitions Schedule" means the ANZNZ covered bond trust definitions schedule entered into on the Programme Date between the Transaction Parties.

"Definitive Covered Bond" means a Bearer Definitive Covered Bond and/or, as the context may require, a Registered Definitive Covered Bond.

"Delegation Agreement" means the delegation agreement entered into on the Programme Date between the Trust Manager and ANZ New Zealand.

"Demand Loan" means the aggregate principal amount of each Demand Loan Advance, as reduced by repayment under the Demand Loan Agreement.

"Demand Loan Advances" means advances made or to be made by the Demand Loan Provider to the Covered Bond Guarantor under the Demand Loan Facility, and each a **"Demand Loan Advance"**.

"Demand Loan Agreement" means the demand loan agreement entered into on the Programme Date between the Covered Bond Guarantor, the Trust Manager, the Demand Loan Provider, the Seller, the Calculation Manager and the Security Trustee.

"Demand Loan Facility" has the meaning given to it in clause 2.1 of the Demand Loan Agreement.

"Demand Loan Provider" means ANZ New Zealand.

"Determination Date" means 15 February 2011 and the 15th day of each month thereafter or, if such day is not a Local Business Day, the following Local Business Day.

"Distribution Agreement" means the agreement dated 23 August 2012 entered into by the Issuers, the Guarantor, the Covered Bond Guarantor, the Seller, the Arranger and the Dealers to agree on a basis upon which the Dealers or any of them may from time to time agree to purchase Covered Bonds for the issuance to investors in the United States in accordance with section 4(a)(2) of the Securities Act and Rule 144A and to investors outside the United States in accordance with Regulation S.

"Distribution Compliance Period" has the meaning given to it in Condition 2(h) (*Definitions*).

"Dodd-Frank Act" means the Dodd-Frank Wall Street Reform and Consumer Protection Act.

"DTC" means the Depository Trust Company.

"Due for Payment" means the requirement by the Covered Bond Guarantor to pay any Guaranteed Amount following the delivery of a Notice to Pay on the Covered Bond Guarantor:

- (a) prior to the occurrence of a Covered Bond Guarantor Event of Default and the service of a Covered Bond Guarantee Acceleration Notice on the Issuers, the Guarantor and the Covered Bond Guarantor, on the later of:
 - (i) the Original Due for Payment Date; and
 - (ii) in relation to any Guaranteed Amounts in respect of the Final Redemption Amount payable on the Final Maturity Date for a Series of Covered Bonds only, the Extended Due for Payment Date, but only (i) if in respect of the relevant Series of Covered Bonds the Covered Bond Guarantee is subject to an Extended Due for Payment Date pursuant to the terms of the applicable Final Terms and (ii) to the extent that the Covered Bond Guarantor having received a Notice to Pay no later than the date falling one Business Day prior to the Extension Determination Date does not pay Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds by the Extension Determination Date, as the Covered Bond Guarantor has insufficient moneys available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of (a) the date which falls two Business Days after service of such Notice to Pay on the Covered Bond Guarantor or, if later, the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9(b)(i) (*Covered Bond Guarantor Events of Default*)) under the terms of the Covered Bond Guarantee or (b) the Extension Determination Date,

or if, in either case, such day is not a Business Day, the next following Business Day. For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the guaranteed obligations, by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise; or

- (b) following the occurrence of a Covered Bond Guarantor Event of Default, the date on which a Covered Bond Guarantee Acceleration Notice is served on the Issuer and the Covered Bond Guarantor.

"Earliest Maturing Covered Bonds" means at any time, the Series of the Covered Bonds (other than any Series which is fully collateralised by amounts standing to the credit of the GIC Account) that has or have the earliest Final Maturity Date as specified in the applicable Final Terms (ignoring any acceleration of amounts due under the Covered Bonds prior to the occurrence of a Covered Bond Guarantor Event of Default).

"Early Redemption Amount" in relation to a Series of Covered Bonds, means the early redemption amount determined in accordance with Condition 5(f) (*Early Redemption Amounts*).

"Early Repayment Charges" means any charge or fee which a Borrower is required to pay in accordance with the Housing Loan Conditions applicable to a Housing Loan in the event that the Borrower repays all or part of the relevant Housing Loan before a specified date.

"Establishment Deed" means the trust deed entered into on the Programme Date, between the Covered Bond Guarantor, the Trust Manager, the Bond Trustee, the Security Trustee, the Seller, the Servicer and the Calculation Manager.

"Euroclear" means Euroclear Bank S.A./N. V.

"Excess Proceeds" means moneys received (following the occurrence of an Issuer Event of Default and delivery of an Issuer Acceleration Notice and service of a Notice to Pay) by the Bond Trustee from the Relevant Issuer or the Guarantor or any administrator, receiver, receiver and manager, liquidator, statutory manager or other similar official appointed in relation to the Issuer or the Guarantor.

"Exchange Agent" means Deutsche Bank AG, London Branch, including any additional or successor exchange agent.

"Exchange Date" means on or after the date which is 40 days after a Temporary Bearer Global Covered Bond is issued.

"Exchange Event" means the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, whether statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available.

"Excluded Swap Termination Amount" means in relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable (a) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (b) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider.

"Existing Covered Bonds" has the meaning given to it on page 148.

"Extended Due for Payment Date" has the meaning given to it in Condition 5(a) (*Final redemption*).

"Extension Determination Date" has the meaning given to it in Condition 5(a) (*Final Redemption*).

"Extraordinary Resolution" means a resolution of the Covered Bondholders passed as such under the terms of the Bond Trust Deed.

"FATCA" means (i) the U.S. Foreign Account Tax Compliance Act, as codified in Sections 1471 to 1474 of the Code, (ii) any intergovernmental agreement between the U.S. and another country relating thereto and (iii) any agreement entered into between an FFI and the U.S. Internal Revenue Service pursuant to either (i) or (ii).

"FCA" means the United Kingdom Financial Conduct Authority.

"FFI" means a foreign financial institution as defined in FATCA.

"Final Maturity Date" means, in relation to a Series of Covered Bonds, the Interest Payment Date specified as such in the applicable Final Terms on which such Series of Covered Bonds is required to be redeemed in accordance with Condition 4 (*Interest and other Calculations*).

"Final Redemption Amount" means, in relation to a Series of Covered Bonds, the meaning given in the applicable Final Terms.

"Final Terms" means the final terms prepared in relation to each Series or Tranche of Covered Bonds issued under the Programme (substantially in the form set out in the Prospectus) and giving details of that Series or Tranche and, in relation to any particular Series or Tranche of Covered Bonds and which will constitute final terms for the purposes of Article 5.4 of the Prospectus Directive, "applicable Final Terms" means the Final Terms applicable to that Tranche.

"Fiscal Period" means a period beginning on 1 October in each year and ending on and including the next following Annual Accounting Date, except for the first Fiscal Period which is the period beginning on the Programme Date and ending on the Annual Accounting Date falling on 30 September 2011.

"Fitch" means Fitch Australia Pty Ltd. and includes any successor to its ratings business.

"Floating Rate Payer Spread" has the meaning given to it in the applicable Covered Bond Swap Agreement.

"Foreign Currency Contingent Covered Bonds" means a Covered Bond that is a contingent payment debt instrument denominated in a foreign currency.

"FSMA" means the United Kingdom Financial Services and Markets Act 2000.

"Further Advances" means in relation to a Housing Loan in the Housing Loan Portfolio, any advances of further money to the relevant Borrower following the making of the initial advance of monies in respect of such Housing Loan ("Initial Advance") which is secured by the same Mortgage as the Initial Advance but does not include any Cash Redraw, and each a "Further Advance".

"General Insurance Policies" mean any insurance policies in force issued in respect of Property the subject of any Mortgage or any other property the subject of any Related Security in respect of a Housing Loan.

"GIC Account" means the account in the name of the Covered Bond Guarantor held with the Account Bank and maintained subject to the terms of the Account Bank Agreement and the Security Deed and/or such additional or replacement account as may from time to time be in place pursuant to the terms of the Account Bank Agreement and the Security Deed.

"GLB" means the U.S. Gramm-Leach-Bliley Act (also known as the Financial Modernisation Act).

"Global Covered Bond" has the meaning given to it in the Conditions.

"GST" means goods and services tax chargeable under the Goods and Services Tax Act 1985 (New Zealand).

"Guarantee" means the unconditional and irrevocable guarantee by the Guarantor in clause 7 of the Bond Trust Deed.

"Guarantee Priority of Payments" has the meaning given to it on page 229.

"Guaranteed Amounts" means (a) prior to the service of a Covered Bond Guarantee Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, or (b) after service of a Covered Bond Guarantee Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Conditions plus all accrued and unpaid interest and at other amounts due and payable in respect of the Covered Bonds, including all Excluded Scheduled Interest Amounts, all Excluded Scheduled Principal Amounts (whenever the same arose) and all amounts payable by the Covered Bond Guarantor under the Bond Trust Deed.

"Guarantor" means ANZ New Zealand as guarantor in respect of Covered Bonds issued by ANZNIL pursuant to the Guarantee.

"Hard Bullet Covered Bonds" means a Series of Covered Bonds which is scheduled to be redeemed in full on the Final Maturity Date for such Covered Bonds and without any provision for scheduled redemption other than on the Final Maturity Date.

"Higher Redemption Amount" means the amount (if any) specified in the applicable Final Terms.

"Housing Loan" means, unless otherwise specified, a housing loan originated by the Seller referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other monies (including, without limitation, all Cash Redraws and Further Advances) due or owing with respect to that housing loan under the relevant Housing Loan Conditions by a Borrower on the security of a Mortgage from time to time outstanding or, as the context may require, the Borrower's obligations in respect of the same but excluding, for the avoidance of doubt, any Associated Debt.

"Housing Loan Conditions" means all the terms and conditions applicable to a Housing Loan at any time.

"Housing Loan Files" means the file or files relating to each Housing Loan in the Housing Loan Portfolio (including files kept in microfiche or scanned format or similar electronic data retrieval system) containing, amongst other things the mortgage documentation applicable to the Housing Loan.

"Housing Loan Portfolio" means on any particular date, each New Housing Loan Portfolio sold to the Covered Bond Guarantor pursuant to the terms of the Mortgage Sale Agreement up to (and including) such date, after taking account of, among other things, amortisation of the Housing Loans and the addition and/or removal of Housing Loans and the Related Security to or from the Housing Loan Portfolio since the Programme Date.

"Housing Loan Principal Receipts" means any payment in respect of principal received from time to time in respect of any Housing Loan in the Housing Loan Portfolio (including, without limitation, whether as all or part of a Housing Loan Scheduled Payment by a Borrower on the relevant Housing Loan, on redemption (in whole or in part), on enforcement or on disposal of such Housing Loan or otherwise (including pursuant to any Insurance Policy)).

"Housing Loan Repurchase Notice" means the notice served upon the Seller (copied to the Trust Manager and the Security Trustee) by the Covered Bond Guarantor requiring the repurchase by the Seller of specified Housing Loans and the Related Security, as set out in schedule 3 to the Mortgage Sale Agreement.

"Housing Loan Revenue Receipts" means any payment received from time to time in respect of any Housing Loan which is not a Housing Loan Principal Receipt (whether as all or part of a Housing Loan Scheduled Payment by a Borrower on the relevant Housing Loan, on redemption (in whole or in part), on enforcement or on disposal of such Housing Loan or otherwise (including pursuant to any Insurance Contract)).

"Housing Loan Scheduled Payment" means in respect of a Housing Loan, the amount which the applicable Housing Loan Conditions require a Borrower to pay on a Housing Loan Scheduled Payment Date in respect of such Housing Loan.

"Housing Loan Scheduled Payment Date" means, in relation to any Housing Loan, the day on which a Borrower is required to make a payment of interest and, if applicable, principal in accordance with the Housing Loan Conditions applicable to such Housing Loan.

"IBA" means the U.S. International Banking Act of 1978.

"Indexed Valuation" means on any day in relation to a Property:

- (a) where the Latest Valuation of that Property is equal to or greater than the Reference Indexed Valuation as at that date, the Reference Indexed Valuation; or
- (b) where the Latest Valuation of the Property is less than the Reference Indexed Valuation as at that date, the Latest Valuation plus 85 per cent. of the difference between the Latest Valuation and the Reference Indexed Valuation.

"Initial Advance" has the meaning given to it in the definition of Further Advance.

"Insolvency Event" means:

- (a) in respect of a Transaction Party (other than the Trust Manager) (for the purposes of this paragraph (a) the **"Relevant Entity"**) the happening of any of these events:
 - (i) a statutory manager is appointed in respect of the Relevant Entity under the Corporations (Investigation and Management) Act 1989 (New Zealand) or the RBNZ Act;
 - (ii) except for the purpose of a solvent reconstruction or amalgamation:
 - (A) an application or an order is made, proceedings are commenced, a resolution is passed or proposed in a notice of meeting or an application to a court or other steps (other than frivolous or vexatious applications, proceedings, notices and steps) are taken for:
 - (aa) the liquidation or dissolution of the Relevant Entity; or
 - (bb) the Relevant Entity entering into an arrangement, compromise or composition with or assignment for the benefit of its creditors or a class of them; or

- (B) the Relevant Entity ceases, suspends or threatens to cease or suspend the conduct of all or substantially all of its business or disposes of or threatens to dispose of substantially all of its assets; or
 - (iii) the Relevant Entity is, or under applicable legislation is taken to be, unable to pay its debts (other than as the result of a failure to pay a debt or claim the subject of a good faith dispute) or stops or suspends or threatens to stop or suspend payment of all or a class of its debts (except, in the case of the Covered Bond Guarantor, where this occurs in relation to another trust of which it is the trustee);
 - (iv) a receiver or receiver and manager is appointed (by the Relevant Entity or by any other person) to all or substantially all of the assets and undertaking of the Relevant Entity or any part thereof (except, in the case of the Covered Bond Guarantor, where this occurs in relation to another trust of which it is the trustee) and such appointment is not revoked within 15 Local Business Days;
 - (v) an administrator is appointed to the Relevant Entity or any steps are taken for the appointment of an administrator to the relevant corporation; or
 - (vi) anything analogous to an event referred to in subparagraphs (i) to (v) (inclusive) or having substantially similar effect, occurs with respect to the Relevant Entity;
- (b) in relation to any other body corporate, the happening of any of these events:
- (i) an application (other than a frivolous or vexatious application or an application which is stayed within 15 Local Business Days) is made to a court or any order is made that the relevant body corporate be wound up other than for the purposes of a solvent reconstruction or amalgamation;
 - (ii) an application is made to a court or an order appointing a liquidator or provisional liquidator in respect of the relevant body corporate, or one of them is appointed, whether or not under an order;
 - (iii) a receiver, receiver and manager, liquidator, trustee or similar officer is appointed in respect of any part of the property of the relevant body corporate and such appointment is not revoked within 15 Local Business Days;
 - (iv) an administrator is appointed to the relevant body corporate or any steps are taken for the appointment of an administrator to the relevant body corporate;
 - (v) the relevant body corporate commences negotiations with any one or more of its creditors with a view to the general readjustment or rescheduling of its indebtedness or makes a general assignment for the benefit of or a composition with its creditors;
 - (vi) the relevant body corporate is or states that it is unable to pay its debts as and when they fall due or is deemed unable to pay its debts under any applicable legislation (other than as a result of the failure to pay a debt or claim which is the subject of a good faith dispute); or
 - (vii) anything analogous or having a substantially similar effect to any of the events specified above happens under the laws of any applicable jurisdiction.

"Instalment Covered Bond" means a Covered Bond whose redemption basis is specified as "instalment" in the applicable Final Terms.

"Insurance Contracts" means any insurance contract or policy arranged by the Seller from time to time and in which the Seller has an interest relating to the Housing Loans in the Housing Loan Portfolio, and **"Insurance Contract"** means any one of them.

"Insurance Policies" means:

- (a) the General Insurance Policies; and

(b) the Mortgage Insurance Policies,

and each an "**Insurance Policy**".

"**Intercompany Loan Agreement**" means the intercompany loan agreement dated the Programme Date, between the Intercompany Loan Provider, the Covered Bond Guarantor, the Trust Manager, the Seller, the Calculation Manager and the Security Trustee.

"**Intercompany Loan Drawdown Date**" means, in relation to a Term Advance, the date specified in the Intercompany Loan Drawdown Request for the making of the Term Advance, which must be a Local Business Day.

"**Intercompany Loan Drawdown Request**" means a request substantially in the form of schedule 3 to the Intercompany Loan Agreement.

"**Intercompany Loan Interest Payment Date**" means, in relation to a Term Advance, the date specified in the Term Advance Notice.

"**Intercompany Loan Provider**" means ANZ New Zealand.

"**Interest Commencement Date**" in relation to a Series of Covered Bonds has the meaning given to it in the applicable Final Terms.

"**Interest Period**" has the meaning given to it in Condition 4(n).

"**Interest Rate Shortfall**" has the meaning given to it in clause 4.3 of the Servicing Agreement.

"**Interest Rate Shortfall Test**" has the meaning given to it on page 198.

"**Interest Rate Swap**" means the interest rate swap transaction entered into between the Covered Bond Guarantor, the Trust Manager, the Security Trustee and the Interest Rate Swap Provider.

"**Interest Rate Swap Agreement**" means the Swap Agreement entered into on the Programme Date governing the Interest Rate Swap.

"**Interest Rate Swap Provider**" means ANZ New Zealand in its capacity as interest rate swap provider under the Interest Rate Swap together with any successor thereto.

"**IRD**" means the New Zealand Inland Revenue Department.

"**IRS**" means the U.S. Internal Revenue Service.

"**ISDA**" means the International Swaps and Derivatives Association, Inc.

"**ISDA Master Agreement**" means the 2002 ISDA master agreement, as published by ISDA.

"**Issue Date**" means, in relation to any Series or Tranche, the date on which such Series or Tranche has been issued or, if not yet issued, the date agreed between the Relevant Issuer and the relevant Dealer or the Lead Manager, as the case may be, for the issue of such Series or Tranche.

"**Issue Price**" means, in relation to a Series or Tranche (as applicable) of Covered Bonds, the price, generally expressed as a percentage of the nominal amount of the Covered Bonds, at which the Covered Bonds will be issued and which is specified in the applicable Final Terms.

"**Issuer**" means ANZNIL (in respect of Covered bonds issued by ANZNIL) or ANZ New Zealand (in respect of Covered Bonds issued by ANZ New Zealand), and "**Issuers**" means both of them and references to the "**Relevant Issuer**" shall in relation to any Series or Tranche of Covered Bonds be references to the Issuer which is, or is intended to be, the Issuer of such Covered Bonds as indicated in the applicable Final Terms.

"**Issuer Acceleration Notice**" has the meaning given to it in Condition 9(a) (*Issuer Events of Default*).

"**Issuer Event of Default**" has the meaning given to it in Condition 9(a) (*Issuer Events of Default*).

"**Land**" means:

- (a) any estate or interest whether at law or in equity in freehold or leasehold land situated in New Zealand, including all improvements on that land; and
- (b) any unit and any lot, common property and land comprising a unit within the meaning of the Unit Titles Act 1972 (NZ).

"**Latest Valuation**" means, in relation to a Property, the value given to the Property by the most recent Valuation Report held by the Seller or the purchase price of the Property (if there is no Valuation Report).

"**Lead Manager**" has the meaning given to it in the Programme Agreement.

"**Ledgers**" has the meaning given to it in clause 19.1 of the Establishment Deed.

"**Legend**" has the meaning given to it on page 111 of this Prospectus.

"**Legended Covered Bond**" means a Registered Covered Bond (whether in definitive form or represented by a Registered Global Covered Bond) sold in private transactions to QIBs in accordance with the requirements of Rule 144A which bears a legend specifying certain restrictions on transfer.

"**Liabilities**" means, in respect of any person, any losses, damages, costs, charges, awards, claims, demands, expenses, judgments, actions, proceedings or other liabilities whatsoever including properly incurred legal fees and penalties incurred by that person, and Liability shall be construed accordingly.

"**Liability Payment**" has the meaning given to it in clause 5.4 of the Mortgage Sale Agreement.

"**LINZ**" means Land Information New Zealand.

"**Local Business Day**" means any day (other than a Saturday, Sunday or public holiday) on which banks are open for business in Auckland, Wellington, Melbourne and Sydney.

"**London Stock Exchange**" means the regulated market of the London Stock Exchange plc.

"**Losses**" means the realised losses on the Housing Loans which are in the Housing Loan Portfolio.

"**Luxembourg Registrar**" means Deutsche Bank Luxembourg S.A.

"**LVR Adjusted Housing Loan Balance Amount**" has the meaning given to it on page 205.

"**Majority Secured Creditors**" means Secured Creditors whose Secured Obligations amount in aggregate to more than 66 per cent. of the total Secured Obligations.

"**Management Agreement**" means the management agreement entered into on the Programme Date, between the Seller, the Servicer, the Account Bank, the Calculation Manager, the Covered Bond Guarantor, the Trust Manager and the Security Trustee.

"**Minimum Redemption Amount**" means in respect of a Series or Tranche of Covered Bonds, the amount (if any) specified in the applicable Final Terms.

"**Moody's**" means Moody's Investors Service Pty Limited and includes any successor to its rating business.

"**Mortgage**" means a registered mortgage over Land situated in New Zealand, which creates, or is intended to create a Security Interest, which is originally granted to the Seller and which secures the repayment of the principal amount of a Housing Loan and all other moneys payable under the Housing Loan, notwithstanding that by its terms the mortgage may also secure other liabilities owing to the Seller.

"**Mortgage Account**" means as the context requires (i) all Housing Loans secured on the same Property and thereby forming a single mortgage account or (ii) an account maintained by the Servicer

in respect of a particular Housing Loan to record all amounts due in respect of that Housing Loan (whether by way of principal, interest or otherwise) and all amounts received in respect thereof.

"Mortgage Insurance Policies" means all primary insurance policies issued by a Mortgage Insurer which covers all losses realised in a default to not less than 40 per cent. of the value of the Housing Loan.

"Mortgage Insurer" means any mortgage insurer approved by the Trust Manager and acceptable to each Rating Agency and notified to the Covered Bond Guarantor.

"Mortgage Sale Agreement" means the mortgage sale agreement entered into on the Programme Date, between the Seller, the Issuers, the Covered Bond Guarantor, the Trust Manager and the Security Trustee.

"Negative Carry Factor" has the meaning given to it on page 206.

"Net Annual Income" means the net income of the Trust under the provisions of the Income Tax Act 2007 for a Fiscal Period reduced to the extent of any available tax loss the Trust is able to subtract from that net income, provided that Net Annual Income for a Fiscal Period shall not be less than zero.

"New Housing Loans" means Housing Loans which the Seller may transfer to the Covered Bond Guarantor pursuant to the Mortgage Sale Agreement.

"New Housing Loan Portfolio" means a portfolio of New Housing Loans and the Related Security (other than any New Housing Loans and the Related Security included in such portfolio which have been redeemed in full prior to the relevant Transfer Date in respect of such portfolio), particulars of which are set out in, or attached to, a New Housing Loan Portfolio Notice, and all right, title, interest and benefit of the Seller in and to the rights and assets set out in paragraphs (a) to (f) (inclusive) below:

- (a) all sums of principal and interest (including, for the avoidance of doubt, all Arrears of Interest that are currently due and payable as at the Acquisition Cut-Off Date, and all interest and expenses that have been capitalised) and any other sum due or to become due under or in respect of such New Housing Loans and the Related Security after the Acquisition Cut-Off Date (but excluding, for the avoidance of doubt, all Accrued Interest as at the Acquisition Cut-Off Date) in respect of such New Housing Loans and including, without limitation, the right to demand, sue for, recover and give receipts for all such principal, interest or other amounts, the right to sue on all covenants and undertakings made or expressed to be made in favour of the Seller under the applicable Housing Loan Conditions;
- (b) the benefit of all other securities for such principal, interest and other sums payable (including, without limitation, any interest of the Seller in any life policy), any guarantee in respect of such New Housing Loans and any other collateral security for the repayment of the relevant Housing Loans secured by the Related Security;
- (c) the right to exercise all the powers of the Seller in relation thereto subject to and in accordance with the relevant Housing Loan Conditions;
- (d) all the estate, title and interest in the Properties in relation thereto vested in the Seller;
- (e) to the extent they are assignable or capable of being put into trust, each certificate of title and Valuation Report and any right of action of the Seller against any solicitor, valuer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with any such New Housing Loans and the Related Security, or any part thereof affecting the decision of the Seller to make or offer to make such Housing Loans or part thereof; and
- (f) the benefit of certain Insurance Contracts, in each case so far as they relate to such New Housing Loans comprised in that portfolio of New Housing Loans and the Related Security, including the right to receive the proceeds of all claims made or to be made by or on behalf of the Seller or to which the Seller is or may become entitled.

"New Housing Loan Portfolio Notice" means a notice in the form set out in schedule 2 to the Mortgage Sale Agreement served in accordance with the terms of the Mortgage Sale Agreement.

"New Product Type" means a new type of housing loan originated or acquired by the Seller, which the Seller intends to transfer to the Covered Bond Guarantor, the terms and conditions of which are materially different (in the opinion of the Seller, acting reasonably) from the Housing Loans in the Housing Loan Portfolio. For the avoidance of doubt, a Housing Loan will not constitute a New Product Type if it differs from the Housing Loans in the Housing Loan Portfolio due to it having different interest rates and/or interest periods and/or time periods for which it is subject to a fixed rate, capped rate, tracker rate or any other interest rate or the benefit of any discounts, cash-backs and/or rate guarantees.

"NGCB" means a Temporary Bearer Global Covered Bond or a Permanent Bearer Global Covered Bond, in either case in respect of which the applicable Final Terms specify that it is a new global covered bond.

"Notice to Pay" means the notice to pay served by the Bond Trustee on the Covered Bond Guarantor pursuant to the Covered Bond Guarantee which requires the Covered Bond Guarantor to make payments of Guaranteed Amounts when they shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

"NSS" means the new safekeeping structure.

"NZ Companies Act" means the Companies Act 1993 (New Zealand).

"NZ dollar Equivalent" means in relation to an amount which is denominated in (a) a currency other than NZ dollars, the NZ dollar equivalent of such amount ascertained using the relevant Swap Rate and (b) NZ dollars, the applicable amount in NZ dollars.

"Official List" means the official list of the FCA.

"OID" means original issue discount.

"Original Due for Payment Date" means the date on which the Scheduled Payment Date in respect of such Guaranteed Amount occurs or, if later, the day which is two Business Days following the date of service of a Notice to Pay on the Covered Bond Guarantor in respect of such Guaranteed Amounts or if the applicable Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, the Interest Payment Dates that would have applied if the Final Maturity Date of such series had been the Extended Due for Payment Date.

"Outstanding" or **"outstanding"** means, in relation to the Covered Bonds of all or any Series, all the Covered Bonds of such Series issued other than:

- (a) those Covered Bonds which have been redeemed in full and cancelled pursuant to the Trust Presents and/or the Conditions;
- (b) those Covered Bonds in respect of which the date (including, where applicable, any deferred date) for redemption in accordance with the Conditions has occurred and the redemption monies (including all interest payable thereon) have been duly paid to the Bond Trustee or to the Principal Paying Agent in the manner provided in the Principal Agency Agreement (and where appropriate notice to that effect has been given to the relative Covered Bondholders in accordance with Condition 14 (*Notices*) of the Conditions and remain available for payment against presentation of the relevant Covered Bonds and/or Receipts and/or Coupons;
- (c) those Covered Bonds which have been purchased and cancelled in accordance with Conditions 5(h) (*Redemption and Purchase – Purchases*) and 5(i) (*Redemption and Purchase – Cancellation*) and any equivalent provision in the Conditions;
- (d) those Covered Bonds which have become void or in respect of which claims have become prescribed, in each case under Condition 8 (*Prescription*) of the Conditions;

- (e) those mutilated or defaced Covered Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 12 (*Replacement of Covered Bonds, Receipts, Coupons and Talons and Exchange of Talons*) of the Conditions;
- (f) (for the purpose only of ascertaining the Principal Amount Outstanding of the Covered Bonds outstanding and without prejudice to the status for any other purpose of the relevant Covered Bonds) those Covered Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 12 (*Replacement of Covered Bonds, Receipts, Coupons and Talons and Exchange of Talons*); and
- (g) any Global Covered Bond to the extent that it shall have been exchanged for definitive Covered Bonds or another Global Covered Bond pursuant to its provisions, the provisions of the Trust Presents and the Principal Agency Agreement,

provided that for each of the following purposes, namely:

- (a) the right to attend and vote at any meeting of the holders of the Covered Bonds of any Series, to give instruction or direction to the Bond Trustee and for the purposes of a resolution in writing as envisaged by paragraph 20 of schedule 4 (*Provisions of Meetings for Covered Bondholders*) to the Bond Trust Deed;
- (b) the determination of how many and which Covered Bonds of any Series are for the time being outstanding for the purposes of clause 10 (*Proceedings, Action and Indemnification*) of the Bond Trust Deed, Conditions 9 (*Events of Default and Enforcement*) and 11 (*Meetings of Covered Bondholders, Modification, Waiver, Substitution and Legislative Exchange*) of the Conditions and paragraphs 2, 5, 6, and 9 of schedule 4 (*Provisions of Meetings for Covered Bondholders*) to the Bond Trust Deed;
- (c) any discretion, power or authority (whether contained in the Trust Presents or vested by operation of law) which the Bond Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the holders of the Covered Bonds of any Series; and
- (d) the determination by the Bond Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the holders of the Covered Bonds of any Series,

those Covered Bonds of the relevant Series (if any) which are for the time being held by or on behalf of or for the benefit of the Issuer, the Guarantor or the Covered Bond Guarantor, any Subsidiary or holding company of any of them or any other Subsidiary of any such holding company, in each case as beneficial owner shall (unless and until ceasing to be so held) be deemed not to remain outstanding except in the case of the Issuer, the Guarantor or the Covered Bond Guarantor, any Subsidiary or holding company of any of them or any other Subsidiary of any such holding company (each, a "**Relevant Person**") holding, by itself or together with any other Relevant Person, all of the Covered Bonds then outstanding or, in respect of a Series of Covered Bonds holds all Covered Bond of such Series.

"**Overpayment**" means in respect of a Housing Loan in the Housing Loan Portfolio, any additional amounts of Housing Loan Principal Receipts received above the regular Housing Loan Scheduled Payments due in respect of such Housing Loan, paid by the relevant Borrower which (a) is permitted by the terms of such Housing Loan or by agreement with the Borrower and (b) reduces the Current Principal Balance of such Housing Loan.

"**Partial Portfolio**" means part of any portfolio of Selected Housing Loans.

"**Patriot Act**" means the USA Patriot Act of 2001.

"**Paying Agent**" has the meaning given to it in the Conditions.

"**Permanent Bearer Global Covered Bond**" means a global bearer covered bond in the form or substantially in the form set out in Part 2 (*Form of Permanent Bearer Global Covered Bond*) of schedule 2 (*Forms of Global and Definitive Covered Bonds, Receipts, Coupons and Talons*) to the Bond Trust Deed together with the copy of the applicable Final Terms annexed thereto and with such

modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the Relevant Dealer(s), comprising some or all of the Covered Bonds of the same Series, issued by the Issuer and the Relevant Dealer(s) relating to the Programme, the Principal Agency Agreement and the Trust Presents in exchange for the whole or part of any Temporary Bearer Global Covered Bond issued in respect of such Covered Bonds.

"Permitted Investments" means:

- (a) Housing Loans and the Related Security;
- (b) Substitution Assets;
- (c) Authorised Investments; and
- (d) amounts deposited in the Trust Accounts,

in each case acquired in accordance with the Programme Documents, and "Permitted Investment" means any of them.

"PLA" means the Property Law Act 2007 (New Zealand).

"Post-Enforcement Priority of Payments" has the meaning given to it on page 234.

"PPSA" means the Personal Property Securities Act 1999 (New Zealand).

"PPSR" means the Personal Property Securities Register established under section 139 of the PPSA.

"Pre-Acceleration Priority of Payments" means the Pre-Acceleration Principal Priority of Payments or the Pre-Acceleration Revenue Priority of Payments, as the context requires.

"Pre-Acceleration Principal Priority of Payments" has the meaning given to it on page 228.

"Pre-Acceleration Revenue Priority of Payments" has the meaning given to it on page 225.

"Pre-Maturity Demand Loan Advance" means a Demand Loan Advance requested by the Covered Bond Guarantor under the Demand Loan Facility in an amount (determined by the Calculation Manager) necessary to rectify a breach of the Pre-Maturity Test.

"Pre-Maturity Ledger" means the ledger maintained by the Trust Manager pursuant to the Management Agreement to record the credits and debits of moneys available to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof if the Pre-Maturity Test in respect of such Series of Hard Bullet Covered Bonds has been breached.

"Pre-Maturity Test", in respect of a Series of Hard Bullet Covered Bonds, will be breached on any Pre-Maturity Test Date, if ANZ New Zealand's short-term credit rating from Moody's falls to P-2 (or lower) or from Fitch falls to F1 (or lower) and the Final Maturity Date of the Series of Hard Bullet Covered Bonds will fall within 12 months from the relevant Pre-Maturity Test Date.

"Pre-Maturity Test Date" means each Local Business Day during the Pre-Maturity Test Period.

"Pre-Maturity Test Period" means, in relation to a Series of Hard Bullet Covered Bonds, in respect of ANZ New Zealand's short-term credit rating from Moody's or from Fitch, the period commencing on the day 12 months prior to the Final Maturity Date of the Series.

"Principal Agency Agreement" means the principal agency agreement dated the Programme Date (such agency agreement as amended and/or supplemented and/or restated from time to time) and made between the Issuers, the Guarantor, the Covered Bond Guarantor, the Bond Trustee, the Principal Paying Agent and the Registrar.

"Principal Amount Outstanding" has the meaning given to it in Condition 4(n)) (Definitions).

"Principal Ledger" means the ledger of such name maintained by the Trust Manager pursuant to the Management Agreement to record the credits and debits of Housing Loan Principal Receipts and the

other amounts described in paragraphs (b) and (c) of the definition of Available Principal Receipts in accordance with the terms of the Establishment Deed.

"Principal Paying Agent" has the meaning given to it in the Conditions.

"Priorities of Payments" means the orders of priority for the allocation and distribution of amounts standing to the credit of the Trust Accounts in different circumstances, and each a **"Priority of Payments"**.

"Product Switch" means a variation, from time to time, in the Housing Loan Conditions applicable to a Borrower's Housing Loan which means that the Housing Loan would no longer be a Qualifying Housing Loan and/or moving a Borrower to an alternative mortgage product, including a change in Product Type.

"Product Type" means a type of housing loan originated by the Seller.

"Programme" means the covered bond programme established by ANZ New Zealand and ANZNIL.

"Programme Agreement" means the agreement dated 25 May 2011, as amended and restated on 23 August 2012, 17 June 2014, 17 June 2015, 2 August 2017 and 3 August 2018 (as may be further amended or supplemented from time to time) entered into by the Issuers, the Guarantor, the Covered Bond Guarantor, the Seller, the Arrangers and the Dealers to agree on a basis upon which the Dealer(s) or any of them may from time to time agree to purchase Covered Bonds for issuance to investors outside the United States in accordance with Regulation S.

"Programme Date" means 11 February 2011.

"Programme Documents" means the following documents:

- (a) Mortgage Sale Agreement (and any documents entered into (including but not limited to any document setting out particulars of each New Housing Loan Portfolio) pursuant to the Mortgage Sale Agreement);
- (b) Servicing Agreement;
- (c) Asset Monitor Agreement;
- (d) Intercompany Loan Agreement;
- (e) Demand Loan Agreement;
- (f) Establishment Deed;
- (g) Management Agreement;
- (h) Interest Rate Swap Agreement;
- (i) each Covered Bond Swap Agreement;
- (j) Account Bank Agreement;
- (k) Security Deed (and any documents entered into pursuant to the Security Deed, including without limitation each Deed of Accession);
- (l) Delegation Agreement;
- (m) Bond Trust Deed;
- (n) Programme Agreement;
- (o) Principal Agency Agreement;

- (p) each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement);
- (q) Seller's Power of Attorney;
- (r) Distribution Agreement; and
- (s) the Definitions Schedule,

and each document, agreement or deed ancillary or supplemental to any of such documents or any document, agreement or deed specified by the Issuers, the Guarantor, the Covered Bond Guarantor and the Security Trustee as a Programme Document and each a "**Programme Document**".

"**Programme Resolution**" has the meaning given to it in Condition 11(a) (*Meetings of Covered Bondholders, Modification, Waiver, Substitution and Legislative Exchange*).

"**Property**" means Land which is subject to a Mortgage.

"**Prudent Mortgage Lender**" means a reasonably prudent residential mortgage lender lending to borrowers in New Zealand who generally satisfy the lending criteria of traditional sources of residential mortgage capital.

"**Purchase Price**" means:

- (a) in relation to a Housing Loan and the Related Security being sold, an amount equal to the sum of the Current Principal Balance and all Arrears of Interest (if any) on the Acquisition Cut-Off Date of the Housing Loan;
- (b) in relation to a Housing Loan Portfolio, an amount equal to the sum of the aggregate of the Current Principal Balances and all Arrears of Interest (if any) on the Acquisition Cut-Off Date of the Housing Loans in the Housing Loan Portfolio; and
- (c) in relation to a Further Advance, an amount equal to the principal amount of the Further Advance on the date on which the Further Advance is made.

"**Purchaser**" means the Seller or any third party to whom the Covered Bond Guarantor offers to sell Selected Housing Loans.

"**Qualified Institution**" means an Authorised Institution (i) which pays any relevant interest in the ordinary course of its business and (ii) whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least P-1 by Moody's, and F1 by Fitch and (iii) whose long-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A by Fitch or, in the case of (ii) and (iii), such other lower rating as Fitch and/or Moody's may require in order to maintain the then-current ratings of the Covered Bonds.

"**Qualifying Asset Monitor**" means any person who is:

- (a) independent of ANZ New Zealand; and
- (b) one or more of the following:
 - (i) a licensed auditor under the Auditor Regulation Act 2011;
 - (ii) (if ANZ New Zealand ensures that appropriate arrangements are in place to ensure that the functions of the Asset Monitor are performed by, or under the supervision of, a licensed auditor) a registered audit firm under the Auditor Regulation Act 2011; or
 - (iii) a member of any other class of persons or firms that has been approved by the RBNZ.

"**Qualifying Borrower**" means a Borrower which:

- (a) is not a Borrower in respect of a Defaulted Housing Loan; and

(b) is not dead, bankrupt, insane or the subject of an Insolvency Event,

and any other person which, notwithstanding this definition, the Covered Bond Guarantor approves and notifies in writing to the Seller as being a "Qualifying Borrower".

"Qualifying Housing Loan" means a Housing Loan which satisfies the qualifying housing loan eligibility criteria set out on pages 188 to 189.

"QIBs" means a qualified institutional buyer within the meaning of Rule 144A under the Securities Act.

"QV House Price Index" means the quarterly index of increases or decreases in house prices, produced on a regional basis by Quotable Value Limited or, if this index is unavailable, a suitably widely recognised property price index selected by the Trust Manager (in its sole discretion).

"Rating Agencies" means Moody's and Fitch or their successors, to the extent they provide ratings in respect of the Covered Bonds, and each a **"Rating Agency"**.

"Rating Affirmation Notice" means, in relation to an event or circumstances, a notice in writing from the Trust Manager to the Covered Bond Guarantor (and copied to the Seller and each Rating Agency) confirming that it has notified the Rating Agencies of the event or circumstances and that the Trust Manager is satisfied, for the purposes of the Programme Documents, following discussions with the Rating Agencies, that the event or circumstances, as applicable, will not result in a reduction, qualification or withdrawal of the ratings then assigned by the Rating Agencies and if a Rating Agency confirmation is required for the purposes of the Programme Documents and the Rating Agency does not consider such confirmation necessary the Trust Manager shall be entitled to assume that the then current rating of the Covered Bonds from that Rating Agency will not be downgraded or withdrawn by such Rating Agency as a result of such event or circumstance.

"RBNZ" means the Reserve Bank of New Zealand.

"RBNZ Act" means the Reserve Bank of New Zealand Act 1989 (New Zealand).

"Receipholders" has the meaning given to it in the Conditions.

"Receipts" has the meaning given to it in the Conditions.

"Receiver" means any person or persons appointed (and any additional person or persons appointed or substituted pursuant thereto) by the Security Trustee as a receiver, receiver, manager, or receiver and manager of the property charged or secured under the Security Deed.

"Reference Banks" means ANZ New Zealand, Bank of New Zealand and Westpac Banking Corporation.

"Reference Indexed Valuation" means on any day in relation to any Property, the Latest Valuation of the Property increased or decreased (as appropriate) by the appropriate regional increase or decrease in the QV House Price Index since the date of that Latest Valuation.

"Register" means the register of holders of the Registered Covered Bonds maintained by the Registrar.

"Registered Covered Bonds" means Covered Bonds issued in registered form (being Registered Global Covered Bonds and/or Registered Definitive Covered Bonds, as the case may be).

"Registered Definitive Covered Bond" has the meaning given to it in the Conditions.

"Registered Global Covered Bond" means a Regulation S Global Covered Bond or a Rule 144A Global Covered Bond.

"Registrars" means the Luxembourg Registrar and the U.S. Registrar, and each a **"Registrar"**.

"Regulation S" means Regulation S under the Securities Act.

"Regulation S Global Covered Bond" has the meaning given to it on page 112 of this Prospectus.

"Reimbursement Demand Loan Advance" means a Demand Loan Advance requested by the Covered Bond Guarantor under the Demand Loan Facility in an amount (determined by the Trust Manager) necessary to pay to the Seller the Purchase Price of a Further Advance or to reimburse the Seller for funding a Cash Redraw that the Covered Bond Guarantor has agreed may remain in the Housing Loan Portfolio.

"Related Company" has the meaning given to it in section 2(3) of the NZ Companies Act, but as if the expression "company" includes a "body corporate".

"Related Security" means in relation to a Housing Loan, the security for the repayment of that Housing Loan including the relevant Mortgage and all other documents, matters and things related thereto and which constitute all or part of the security for the payment of all sums due in respect of the Housing Loan, including for the avoidance of doubt, guarantees, security over life policies, and any replacement security for a Housing Loan that is transferred to the Covered Bond Guarantor in accordance with the Mortgage Sale Agreement, and with respect to any Related Security that constitutes an All Moneys Mortgage, the beneficial interest of the Covered Bond Guarantor in the All Moneys Mortgage Trust declared in respect of that Mortgage.

"Relevant Dealer" has the meaning given to it in the Programme Agreement.

"Relevant Spread" means (A) in the case of a Series of floating rate Covered Bonds the Specified Currency of which is NZ dollars, the Margin for the Series specified in the applicable Final Terms; and (B) in any other case the Floating Rate Payer Spread specified in the applicable Covered Bond Swap.

"Reporting Statement" means the statement (which may be in electronic form) prepared by the Trust Manager on each Determination Date in a form agreed by the Trust Manager, the Servicer and the Covered Bond Guarantor.

"Representations and Warranties" means the representations and warranties summarised on pages 190 to 193 (inclusive).

"Repurchase Cut-Off Date" means, in respect of a Housing Loan to be repurchased by the Seller, the date specified in the relevant notice as the date on which the Housing Loan is selected for acquisition with the actual transfer occurring on the Repurchase Date.

"Repurchase Date" means the date of completion of a repurchase of a Housing Loan by the Seller from the Covered Bond Guarantor in accordance with the Mortgage Sale Agreement.

"Repurchase Price" means, in relation to a Housing Loan and the Related Security being repurchased, an amount equal to the sum of the Current Principal Balance and all Accrued Interest and Arrears of Interest (if any) on the Repurchase Cut-Off Date of the Housing Loan.

"Required Current Principal Balance Amount" has the meaning given to it on page 209.

"Required Redemption Amount" means, in respect of a Series of Covered Bonds, the amount calculated in accordance with the following formula:

$$A \times \left(1 + \left(B \times \frac{C}{365} \right) \right)$$

where,

A = the Principal Amount Outstanding of the relevant Series of Covered Bonds;

B = the Negative Carry Factor; and

C = days to maturity of the relevant Series of Covered Bonds.

"Reserve Fund" means the reserve fund established by the Covered Bond Guarantor (or the Trust Manager on its behalf) in the GIC Account which will be credited with the proceeds of Available Revenue Receipts or a Term Advance up to an amount equal to the Reserve Fund Required Amount in accordance with the applicable Priority of Payments.

"Reserve Fund Required Amount" means if, on any date, ANZ New Zealand's short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least P-1 by Moody's and F1+ by Fitch, nil or such other amount as ANZ New Zealand shall advise the Covered Bond Guarantor from time to time and otherwise, an amount equal to:

- (a) the higher of the NZ dollar Equivalent of the interest:
 - (i) that will accrue on each Series of Covered Bonds from (and including) that date to (but excluding) the date falling three months after such date; and
 - (ii) due for payment on each Series of Covered Bonds from (and including) that date to (but excluding) the date falling three months after such date; and
- (b) an amount equal to one-quarter of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (a) to (c) of the Pre-Acceleration Revenue Priority of Payments.

"Reserve Ledger" means the ledger of such name maintained by the Trust Manager pursuant to the Management Agreement, to record the crediting of amounts to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the Establishment Deed.

"Residual Capital Beneficiary" means The ANZ National Bank Staff Foundation.

"Residual Income Beneficiary" means The ANZ National Bank Staff Foundation.

"Residual Income Beneficiary Ledger" means the ledger of such name maintained by the Trust Manager in accordance with the Management Agreement.

"Revenue Ledger" means the ledger of such name maintained by the Trust Manager pursuant to the Management Agreement to record credits and debits of Housing Loan Revenue Receipts and the other amounts described in paragraphs (b) and (c) of the definition of Available Revenue Receipts in accordance with the terms of the Establishment Deed.

"Rule 144A" means Rule 144A under the Securities Act.

"Rule 144A Global Covered Bond" has the meaning given to it on page 112 of this Prospectus.

"Sale Proceeds" means the cash proceeds realised from the sale of Selected Housing Loans and the Related Security.

"Scheduled Interest" means an amount equal to the amount in respect of interest which would have been due and payable under the Covered Bonds on each Interest Payment Date as specified in Condition 4 (*Interest and other Calculations*) (but excluding any additional amounts relating to premiums, default interest or interest upon interest ("**Excluded Scheduled Interest Amounts**") payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following service of a Covered Bond Guarantee Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date or, if the Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date (but taking into account any principal repaid in respect of such Covered Bonds or any Guaranteed Amounts paid in respect of such principal prior to the Extended Due for Payment Date), less any additional amounts the Issuer would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 7.

"Scheduled Payment Date" means in relation to payments under the Covered Bond Guarantee, each Interest Payment Date or the Final Maturity Date as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date.

"Scheduled Principal" means an amount equal to the amount in respect of principal which would have been due and repayable under the Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in Condition 6(a) and Condition 6(e) (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties,

premiums or default interest ("**Excluded Scheduled Principal Amounts**") payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following service of a Covered Bond Guarantee Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date or, if the Final Terms specify that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date.

"**Secured Creditors**" means the Security Trustee (in its own capacity and on behalf of the other Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Covered Bondholders), the Covered Bondholders, the Receiptholders, the Couponholders, the Issuers, the Guarantor, the Seller, the Servicer, the Intercompany Loan Provider, the Demand Loan Provider, the Account Bank, the Calculation Manager, the Swap Providers, the Trust Manager, the Agents and any other person who becomes a Secured Creditor pursuant to the Security Deed, and each a "**Secured Creditor**".

"**Secured Obligations**" means all amounts (whether actual or contingent, present or future) which at any time for any reason or circumstance in connection with any Programme Document that relates to, or applies to, the Trust or the Security Deed or any transactions contemplated by any of them (insofar as such transactions relate to, or apply to, the Trust), whatsoever whether at law, in equity, under statute or otherwise:

- (a) are payable, are owing but not currently payable, are contingently owing, or remain unpaid by the Covered Bond Guarantor to the Security Trustee on its own account or for the account of the Secured Creditors or to any Secured Creditor or to any Receiver;
- (b) have been advanced or paid by the Security Trustee on its own account or for the account of the Secured Creditors or by any Secured Creditor:
- (c) at the express request of the Covered Bond Guarantor; and
- (d) on behalf of the Covered Bond Guarantor;
- (e) which the Security Trustee on its own account or for the account of the Secured Creditors or any Secured Creditor is liable to pay by reason of any act or omission of the Covered Bond Guarantor or has paid or advanced in the protection or maintenance of the Charged Property or the Security and the charge created by the Security Deed following an act or omission by the Covered Bond Guarantor; or
- (f) are reasonably foreseeable as likely, after that time, to fall within any of paragraphs (a), (b) or (c) above,

and references to Secured Obligations includes references to any of them but shall exclude Liability Payments.

This definition applies:

- (a) irrespective of the capacity in which the Covered Bond Guarantor, the Security Trustee or any Secured Creditor became entitled or is liable in respect of the amount concerned;
- (b) whether the Covered Bond Guarantor, the Security Trustee or any Secured Creditor is liable as principal debtor or surety or otherwise;
- (c) whether the Covered Bond Guarantor is liable alone or jointly, or jointly and severally with another person;
- (d) whether the Security Trustee or any Secured Creditor is the original obligee or an assignee or a transferee of the Secured Obligations and whether or not:
 - (i) the assignment or transfer took place before or after the delivery of the Security Deed; or
 - (ii) the Covered Bond Guarantor consented to or was aware of the assignment or transfer; or

- (iii) the assigned or transferred obligation was secured; or
- (iv) whether the Security Trustee or any Secured Creditor is the original Security Trustee or an original Secured Creditor or an assignee or a transferee of the original Security Trustee or an original Secured Creditor, and whether or not the Covered Bond Guarantor consented to or was aware of the assignment or transfer.

"**Securities Act**" means the United States Securities Act of 1933, as amended.

"**Security**" means the Security Interests over the Charged Property granted pursuant to the Security Deed.

"**Security Deed**" means the security deed dated the Programme Date and made between, among others, the Covered Bond Guarantor, the Trust Manager, the Bond Trustee and the Security Trustee.

"**Security Interest**" means any mortgage, security interest, charge, encumbrance, pledge, lien, hypothecation, assignment by way of security or other security interest or title retention arrangement and any agreement, trust or arrangement having substantially the same economic or financial effect as any of the foregoing (other than a lien arising in the ordinary course of business or by operation of law).

"**Security Trust**" means the trust formed under the Security Deed.

"**Security Trustee**" means New Zealand Permanent Trustees Limited, in its capacity as security trustee under the Establishment Deed and the Security Deed together with any additional security trustee appointed from time to time in accordance with the terms of the Security Deed.

"**Selected Housing Loan Offer Notice**" means a notice substantially in the form of schedule 6 of the Mortgage Sale Agreement from the Covered Bond Guarantor served on the Seller offering to sell Selected Housing Loans and the Related Security to the Seller.

"**Selected Housing Loans**" means Housing Loans and the Related Security to be sold by the Covered Bond Guarantor pursuant to the terms of the Establishment Deed having in aggregate the Required Current Principal Balance Amount.

"**Seller**" means ANZ New Zealand in its capacity as seller pursuant to the Mortgage Sale Agreement.

"**Seller Housing Loan Repurchase Notice**" means the notice served on the Covered Bond Guarantor by the Seller offering to purchase certain Housing Loans and the Related Security specified in the notice, as set out in schedule 5 to the Mortgage Sale Agreement.

"**Seller's Power of Attorney**" means the Seller Power of Attorney in favour of the Covered Bond Guarantor in substantially the form set out at schedule 4 to the Mortgage Sale Agreement.

"**Series**" means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

"**Series Reserved Matter**" has the meaning given to it in Condition 11.

"**Servicer**" means ANZ New Zealand in its capacity as Servicer under the Servicing Agreement or such other servicer appointed pursuant to the Servicing Agreement from time to time.

"**Servicer Termination Event**" has the meaning given to it on page 200.

"**Services**" has the meaning given to it in clause 2.1 of the Servicing Agreement.

"**Servicing Agreement**" means the servicing agreement entered into on the Programme Date, between the Covered Bond Guarantor, the Trust Manager, the Servicer and the Security Trustee.

"**Servicing Procedures**" means the originating, lending and underwriting, administration, arrears and enforcement policies and procedures which are applied from time to time by the Seller to housing loans

and the related security for their repayment which are beneficially owned solely by the Seller and which may be amended by the Seller from time to time.

"Settlement Amount" means \$2,000.

"Short-Term Covered Bond" means a Covered Bond with a term of one year or less.

"Specified Currency" means subject to any applicable legal or regulatory restrictions, NZ dollars, Euro, Sterling, U.S. dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the Guarantor, the Relevant Dealer(s), the Principal Paying Agent and the Bond Trustee and specified in the applicable Final Terms.

"Stock Exchange" means the London Stock Exchange or any other or further stock exchange(s) on which any Covered Bonds may from time to time be listed or admitted to trading and references to the relevant Stock Exchange shall, in relation to any Covered Bonds, be references to the Stock Exchange on which such Covered Bonds are, from time to time, or are intended to be, listed or admitted to trading.

"Subsidiary" has the meaning given in section 5 of the NZ Companies Act.

"Substitute Servicer" means a substitute servicer appointed in accordance with the Servicing Agreement.

"Substitution Assets" means each of:

- (a) NZ dollar demand or time deposits, certificates of deposit, long-term debt obligations and short-term debt obligations (including commercial paper) provided that in all cases such investments have a remaining period to maturity of one year or less and the short-term unsecured, unguaranteed and unsubordinated debt obligations or, as applicable, the long-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an Authorised Institution) are rated at least P-1/ Aaa by Moody's and F1+/AAA by Fitch or their equivalents by two other internationally recognised rating agencies; and
- (b) NZ dollar denominated government and public securities provided that such investments have a remaining period to maturity of one year or less and which are rated at least P-1 by Moody's and F1+ by Fitch or their equivalents by two other internationally recognised rating agencies,

provided that such substitution asset satisfies the requirements for eligible assets that may collateralise covered bonds in accordance with RBNZ requirements (if any) and, for the avoidance of doubt, that amounts standing to the credit of the GIC Account, or any other of the Trust Accounts, do not constitute Substitution Assets.

"Swap Agreements" means each agreement between the Covered Bond Guarantor, the Trust Manager, a Swap Provider and the Security Trustee governing Swaps entered into with such Swap Provider in the form of an ISDA Master Agreement, the schedule and any relevant Swap Agreement Credit Support Document and related confirmations, and each a Swap Agreement.

"Swap Agreement Credit Support Document" means a credit support document entered into between the Covered Bond Guarantor and a Swap Provider in the form of the ISDA 1995 credit support annex (Transfer - English law) to the ISDA Master Agreement.

"Swap Collateral" means at any time, an amount of cash which is paid or transferred by a Swap Provider to the Covered Bond Guarantor as collateral to secure the performance by such Swap Provider of its obligations under the relevant Swap Agreement together with any interest or other income received in respect of such asset and any equivalent of such cash.

"Swap Collateral Account Mandate" means the resolutions, instructions and signature authorities relating to the Swap Collateral Cash Accounts.

"Swap Collateral Available Amounts" means, at any time, the amount of Swap Collateral which under the terms of the relevant Swap Agreement may be applied at that time in satisfaction of the

relevant Swap Provider's obligations to the Covered Bond Guarantor following termination of the Swap to the extent that such obligations relate to payments to be made in connection with the Pre-Acceleration Priority of Payments or the Guarantee Priority of Payments.

"Swap Collateral Cash Account" means the account in the name of the Covered Bond Guarantor held with the Account Bank and maintained subject to the terms of the Account Bank Agreement and the relevant Swap Agreement Credit Support Document into which cash is deposited by a Swap Provider as collateral to secure the performance by such Swap Provider of its obligations under the relevant Swap Agreement.

"Swap Collateral Excluded Amounts" means at any time, the amount of Swap Collateral which may not be applied under the terms of the relevant Swap Agreement at that time in satisfaction of the relevant Swap Provider's obligations to the Covered Bond Guarantor, including Swap Collateral which is to be returned or paid to the relevant Swap Provider from time to time in accordance with the terms of the Swap Agreements and ultimately upon termination of the relevant Swap Agreement.

"Swap Provider Default" means, in relation to a Swap Agreement, the occurrence of an Event of Default (as defined in such Swap Agreement) where the relevant Swap Provider is the Defaulting Party (as defined in such Swap Agreement).

"Swap Provider Downgrade Event" means, in relation to a Swap Agreement, the occurrence of an Additional Termination Event (as defined in such Swap Agreement) following a failure by the Swap Provider to comply with the requirements of the ratings downgrade provisions set out in such Swap Agreement.

"Swap Providers" means the Interest Rate Swap Provider and the Covered Bond Swap Providers, and each a **"Swap Provider"**.

"Swap Rate" means in relation to a Covered Bond or Series of Covered Bonds, the exchange rate specified in the Covered Bond Swap Agreement relating to such Covered Bond or Series of Covered Bonds or, if the Covered Bond Swap Agreement has terminated, the applicable spot rate.

"Swaps" means the Interest Rate Swaps and the Covered Bond Swaps.

"Talons" means, if indicated in the applicable Final Terms, talons for further Coupons on interest-bearing Bearer Definitive Covered Bonds.

"Tax Act" means the Income Tax Act 2007 (New Zealand).

"Tax Authority" means any government, state, municipal, local, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world including the IRD of New Zealand.

"Tax Resident in New Zealand" means resident in New Zealand for the purposes of the Tax Act.

"Taxes" mean all present and future taxes, levies, imposts, duties, fees, deductions, withholdings or charges of any nature whatsoever and wheresoever imposed, including, without limitation, income tax, corporation tax, GST or other tax in respect of added value and any franchise, transfer, sales, gross receipts, use, business, occupation, excise, personal property, real property or other tax imposed by any national, local or supranational taxing or fiscal authority or agency together with any penalties, fines or interest thereon and "Tax" or "Taxation" shall be construed accordingly.

"Temporary Bearer Global Covered Bond" means a temporary bearer global covered bond in the form or substantially in the form set out in Part 1 (Form of Temporary Bearer Global Covered Bond) of Schedule 2 (Forms of Global and Definitive Covered Bonds, Receipts, Coupons and Talons) to the Bond Trust Deed together with the copy of the applicable Final Terms annexed thereto with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the Relevant Dealer(s), comprising some or all of the Covered Bonds of the same series, issued by the Issuer pursuant to the Programme Agreement or any other agreement between the Issuer and the Relevant Dealer(s) relating to the Programme, the Principal Agency Agreement and the Trust Presents.

"Temporary Global Covered Bond" means Bearer Covered Bonds without Receipts, interest Coupons or Talons attached.

"Term Advance Notice" means a term advance notice substantially in the form of schedule 2 to the Intercompany Loan Agreement.

"Term Advances" means advances made or to be made by the Intercompany Loan Provider to the Covered Bond Guarantor under the Intercompany Loan Agreement, and each a Term Advance.

"Third Party Amounts" means each of:

- (a) payments by a Borrower of any fees (including Early Repayment Charges) and other charges which are due to the Seller (but not, except to the extent included in paragraph (c) below, including interest payable on the Housing Loans);
- (b) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service (including giving insurance cover) to any of that Borrower or the Seller or the Covered Bond Guarantor, and
- (c) in relation to the acquisition of a Housing Loan, the Accrued Interest for the Housing Loan as at the related Acquisition Cut-Off Date,

which amounts, if received by the Covered Bond Guarantor, may be paid daily from monies on deposit in the GIC Account.

"Title Perfection Event" has the meaning given to it on page 189.

"Tranche" means Covered Bonds which are identical in all respects (including as to listing).

"Transaction Accounts" means the GIC Account and such other accounts as may for the time being be in place with the prior consent of the Security Trustee and designated as such and Transaction Account shall denote any one of the Transaction Accounts.

"Transaction Party" means any person who is a party to a Programme Document and Transaction Parties means some or all of them.

"Transfer Agents" means Deutsche Bank Luxembourg S.A. and Deutsche Bank Trust Company Americas, and each a Transfer Agent.

"Transfer Certificate" means a written certificate substantially in the form set out in the Principal Agency Agreement.

"Transfer Date" means the date on which the Seller, subject to the fulfilment of certain conditions, sells a New Housing Loan Portfolio to the Covered Bond Guarantor in accordance with the Mortgage Sale Agreement.

"Trust" means the trust known as the "ANZNZ Covered Bond Trust" formed under the Establishment Deed.

"Trust Accounts" means the Transaction Accounts, the GIC Account, the All Moneys Mortgage Trust Account, the Swap Collateral Cash Account or any other applicable currency transaction account in the name of the Covered Bond Guarantor held with the Account Bank.

"Trust Manager" means ANZCCL, or any other person from time to time appointed to perform the role of trust manager under the Establishment Deed.

"Trust Manager Termination Event" means:

- (a) the Trust Manager fails to make any payment it is required to make (including on behalf of the Covered Bond Guarantor) under the Establishment Deed or any of the other Programme Documents and such failure is not remedied within a period of five Local Business Days after the date on which the Trust Manager is notified, or otherwise becomes aware, of the failure;

- (b) the Trust Manager fails to comply with any of its other obligations under the Establishment Deed or any of the other Programme Documents, which the Security Trustee considers acting on the directions of (for so long as there are any Covered Bonds outstanding) the Bond Trustee or (where no Covered Bonds are outstanding) the Majority Secured Creditors, is materially prejudicial to the Covered Bondholders and such failure is not remedied or waived within a period of 20 Local Business Days after the Trust Manager is notified, or otherwise becomes aware, of the failure; or
- (c) an Insolvency Event occurs in relation to the Trust Manager.

"Trust Payment Date" means each day which is 2 Local Business Days after a Determination Date.

"Trust Payment Period" means the period from (and including) a Trust Payment Date (or the first Transfer Date in the case of the first Trust Payment Period) to (but excluding) the next Trust Payment Date.

"Trust Presents" means the Bond Trust Deed and the schedules thereto and any supplemental bond trust deed and schedules (if any), thereto, all as from time to time modified in accordance with the provisions therein contained.

"U.S. Paying Agent" means Deutsche Bank Trust Company Americas.

"U.S. Registrar" means Deutsche Bank Trust Company Americas.

"Valuation Report" means the valuation report or reports for mortgage purposes from Quotable Value or from an independent firm of professional valuers appointed by the Seller or from such other source allowed by the Servicing Procedures.

"Vesting Date" means, in relation to the Trust, the earliest of:

- (a) the day preceding the 80th anniversary of the Programme Date;
- (b) the date upon which the Trust terminates by operation of law or in accordance with the Establishment Deed; and
- (c) following the occurrence of a Covered Bond Guarantor Event of Default, the date on which the Security Trustee has notified the Covered Bond Guarantor in writing that it has enforced the Security and has distributed all of the amounts which it is required to distribute under the Security Deed.

"Written Resolution" means a written resolution of Covered Bondholders passed as such under the terms of the Bond Trust Deed.

"Yield Shortfall Test" has the meaning given to it on page 199.

"Zero Coupon Covered Bonds" means Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest.

ANNEX A – ANZ NEW ZEALAND CONSOLIDATED FINANCIAL STATEMENTS

1. ANZ Bank New Zealand Limited Disclosure Statement for the six months ended 31 March 2018.
2. ANZ Bank New Zealand Limited Disclosure Statement for the year ended 30 September 2017.
3. ANZ Bank New Zealand Limited Disclosure Statement for the year ended 30 September 2016.

**ANZ BANK NEW ZEALAND LIMITED
REGISTERED BANK DISCLOSURE STATEMENT**

FOR THE SIX MONTHS ENDED 31 MARCH 2018
NUMBER 89 | ISSUED MAY 2018

REGISTERED BANK DISCLOSURE STATEMENT

FOR THE SIX MONTHS ENDED 31 MARCH 2018

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GLOSSARY OF TERMS

In this Registered Bank Disclosure Statement (Disclosure Statement) unless the context otherwise requires:

Bank means ANZ Bank New Zealand Limited.

Banking Group, We or Our means the Bank and all its controlled entities.

Immediate Parent Company means ANZ Holdings (New Zealand) Limited.

Ultimate Parent Bank means Australia and New Zealand Banking Group Limited.

Overseas Banking Group means the worldwide operations of Australia and New Zealand Banking Group Limited including its controlled entities.

New Zealand business means all business, operations, or undertakings conducted in or from New Zealand identified and treated as if it were conducted by a company formed and registered in New Zealand.

NZ Branch means the New Zealand business of the Ultimate Parent Bank.

ANZ New Zealand means the New Zealand business of the Overseas Banking Group.

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	3 months to		6 months to	
		31 Mar 18 NZ\$m	31 Mar 17 NZ\$m	31 Mar 18 NZ\$m	31 Mar 17 NZ\$m
Interest income		1,577	1,524	3,170	3,075
Interest expense		806	773	1,614	1,562
Net interest income		771	751	1,556	1,513
Other operating income	2	172	133	382	301
Net funds management and insurance income		93	112	204	133
Share of associates' profit		-	-	1	1
Operating income		1,036	996	2,143	1,948
Operating expenses		361	361	747	730
Profit before credit impairment and income tax		675	635	1,396	1,218
Credit impairment charge	5	60	4	72	42
Profit before income tax		615	631	1,324	1,176
Income tax expense		167	178	366	330
Profit after income tax		448	453	958	846

STATEMENT OF COMPREHENSIVE INCOME

	3 months to		6 months to	
	31 Mar 18 NZ\$m	31 Mar 17 NZ\$m	31 Mar 18 NZ\$m	31 Mar 17 NZ\$m
Profit after income tax	448	453	958	846
<i>Items that will not be reclassified to profit or loss</i>				
Actuarial gain on defined benefit schemes	2	19	2	19
Income tax expense relating to items that will not be reclassified	(1)	(5)	(1)	(5)
Total items that will not be reclassified to profit or loss	1	14	1	14
<i>Items that may be reclassified subsequently to profit or loss</i>				
Unrealised losses recognised directly in equity	(8)	-	(6)	(15)
Realised losses transferred to income statement	1	4	3	6
Income tax credit / (expense) relating to items that may be reclassified	2	(1)	1	2
Total items that may be reclassified subsequently to profit or loss	(5)	3	(2)	(7)
Total comprehensive income for the period	444	470	957	853

BALANCE SHEET

As at	Note	31 Mar 18 NZ\$m	30 Sep 17 NZ\$m
Assets			
Cash		2,752	2,338
Settlement balances receivable		763	536
Collateral paid		1,634	1,415
Trading securities		8,416	7,663
Investments backing insurance contract liabilities		152	123
Derivative financial instruments		8,147	9,878
Current tax assets		15	-
Available-for-sale assets		6,609	6,360
Net loans and advances	4	119,649	117,627
Assets held for sale	11	3,225	3,065
Other assets		711	683
Life insurance contract assets		669	636
Investments in associates		-	7
Premises and equipment		354	367
Goodwill and other intangible assets		3,266	3,275
Total assets		156,362	153,973
Liabilities			
Settlement balances payable		1,860	1,840
Collateral received		760	613
Deposits and other borrowings	7	106,080	101,657
Derivative financial instruments		7,766	9,826
Current tax liabilities		-	39
Deferred tax liabilities		207	187
Liabilities held for sale	11	1,017	1,088
Payables and other liabilities		1,104	1,151
Employee entitlements		117	119
Other provisions		62	66
Debt issuances	8	24,456	24,606
Total liabilities		143,429	141,192
Net assets		12,933	12,781
Equity			
Share capital		8,888	8,888
Reserves		46	48
Retained earnings		3,999	3,845
Total equity		12,933	12,781

CONDENSED CASH FLOW STATEMENT

For the six months ended	31 Mar 18 NZ\$m	31 Mar 17 NZ\$m
Cash flows from operating activities		
Interest received	3,182	3,084
Interest paid	(1,625)	(1,560)
Other cash inflows provided by operating activities	530	451
Other cash outflows used in operating activities	(1,182)	(1,121)
<i>Cash flows from operating profits before changes in operating assets and liabilities</i>	905	854
Net changes in operating assets and liabilities	401	(802)
Net cash flows provided by operating activities	1,306	52
Cash flows from investing activities		
Cash inflows provided by investing activities	35	-
Cash outflows used in investing activities	(18)	(26)
Net cash flows used in investing activities	17	(26)
Cash flows from financing activities		
Cash inflows provided by financing activities	2,885	2,943
Cash outflows used in financing activities	(3,825)	(3,388)
Net cash flows used in financing activities	(940)	(445)
Net increase in cash and cash equivalents	383	(419)
Cash and cash equivalents at beginning of the period	2,439	2,315
Cash and cash equivalents at end of the period	2,822	1,896

STATEMENT OF CHANGES IN EQUITY

	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 after income tax	-	-	-	846	846
Unrealised gains / (losses) recognised directly in equity	-	7	(22)	-	(15)
Realised losses transferred to the income statement	-	-	6	-	6
Actuarial gain on defined benefit schemes	-	-	-	19	19
Income tax credit / (expense) on items recognised directly in equity	-	(2)	4	(5)	(3)
Total comprehensive income for the period	-	5	(12)	860	853
Ordinary dividend paid	-	-	-	(785)	(785)
Preference dividend paid	-	-	-	(5)	(5)
As at 31 March 2017	8,888	5	50	3,830	12,773
As at 1 October 2017	8,888	5	43	3,845	12,781
Profit after income tax	-	-	-	958	958
Unrealised gains / (losses) recognised directly in equity	-	9	(15)	-	(6)
Realised losses transferred to the income statement	-	-	3	-	3
Actuarial gain on defined benefit schemes	-	-	-	2	2
Income tax credit / (expense) on items recognised directly in equity	-	(2)	3	(1)	-
Total comprehensive income for the period	-	7	(9)	959	957
Ordinary dividend paid	-	-	-	(800)	(800)
Preference dividend paid	-	-	-	(5)	(5)
As at 31 March 2018	8,888	12	34	3,999	12,933

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim financial statements for the Banking Group have been prepared in accordance with the requirements of the Reserve Bank of New Zealand Act 1989, and should be read in conjunction with the Banking Group's financial statements for the year ended 30 September 2017.

These financial statements comply with:

- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 2013
- NZ IAS 34 *Interim Financial Reporting* and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities
- IAS 34 *Interim Financial Reporting*.

Use of estimates, assumptions and judgements

The preparation of these interim financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of accounting policies. Discussion of the critical accounting estimates and judgements, which include complex or subjective decisions or assessments are provided in the previous full year financial statements. Such estimates and judgements are reviewed on an ongoing basis.

Basis of measurement

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

- derivative financial instruments
- available-for-sale financial assets
- financial instruments held for trading
- financial instruments designated at fair value through profit and loss.

Changes in accounting policies

The accounting policies adopted by the Banking Group are consistent with those adopted and disclosed in the previous full year financial statements.

Presentation currency and rounding

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

Comparatives

Certain amounts in the comparative information have been reclassified to ensure consistency with the current period's presentation.

Principles of consolidation

The financial statements consolidate the financial statements of the Bank and its subsidiaries.

2. OTHER OPERATING INCOME

	Note	3 months to		6 months to	
		31 Mar 18 NZ\$m	31 Mar 17 NZ\$m	31 Mar 18 NZ\$m	31 Mar 17 NZ\$m
i) Net fee and commission income		98	92	203	197
ii) Other income					
Net trading gains		39	54	99	109
Fair value gain / (loss) on hedging activities and financial liabilities designated at fair value		11	(33)	24	(49)
Net foreign exchange earnings and other financial instruments income		50	21	123	60
Derivative valuation adjustments		(4)	10	1	27
Loss on sale of mortgages to NZ Branch		-	-	(1)	(1)
Gain on UDC terminated transaction	11	20	-	20	-
Insurance proceeds		-	-	20	-
Other		8	10	16	18
Other income		74	41	179	104
Total other operating income		172	133	382	301

NOTES TO THE FINANCIAL STATEMENTS

3. SEGMENT REPORTING

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

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 period'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 (including asset financing) through dedicated managers focusing on privately owned medium to large enterprises and the agriculture business segment.

Institutional

The Institutional division services global institutional and business 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, 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 Banking Group's interest rate exposure and liquidity position.

Other

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

	Retail NZ\$m	Commercial NZ\$m	Institutional NZ\$m	Other NZ\$m	Total NZ\$m
For the six months ended 31 March 2018					
External revenues	1,346	894	313	(410)	2,143
Intersegment revenues ¹	(127)	(405)	(6)	538	-
Total revenues	1,219	489	307	128	2,143
Profit after income tax	486	267	121	84	958

For the six months ended 31 March 2017

External revenues	1,315	893	363	(623)	1,948
Intersegment revenues ¹	(137)	(437)	2	572	-
Total revenues	1,178	456	365	(51)	1,948
Profit / (loss) after income tax	478	219	195	(46)	846

Other segment

Other segment profit / (loss) after income tax comprises:

	31 Mar 18 NZ\$m	31 Mar 17 NZ\$m
For the six months ended		
Central functions ²	16	(1)
Technology and Group Centre	42	26
Economic hedges	16	(36)
Revaluation of insurance policies	10	(35)
Total	84	(46)

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

² Central functions' external revenues for the six months to 31 March 2018 includes the \$20 million insurance proceeds (note 2) that were received from a member of the Overseas Banking Group.

NOTES TO THE FINANCIAL STATEMENTS

4. NET LOANS AND ADVANCES

	Note	31 Mar 18 NZ\$m	30 Sep 17 NZ\$m
Overdrafts		861	1,040
Credit cards		1,660	1,638
Term loans - housing		75,020	72,524
Term loans - non-housing		43,990	44,227
Finance lease and hire purchase receivables		1,696	1,577
Subtotal		123,227	121,006
Unearned income		(236)	(222)
Capitalised brokerage/mortgage origination fees		318	334
Gross loans and advances (including assets classified as held for sale)		123,309	121,118
Less: Provision for credit impairment	5	(590)	(579)
Net loans and advances (including assets classified as held for sale)		122,719	120,539
Less: UDC net loans and advances held for sale	11	(3,070)	(2,912)
Net loans and advances		119,649	117,627

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ\$3,516 million as at 31 March 2018 (30 September 2017: NZ\$4,337 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

5. PROVISION FOR CREDIT IMPAIRMENT

Provision for credit impairment - balance sheet

	31 Mar 18 NZ\$m	30 Sep 17 NZ\$m
Individual provision	175	152
Collective provision	415	427
Total provision for credit impairment	590	579

Credit impairment charge - income statement

	3 months to		6 months to	
	31 Mar 18 NZ\$m	31 Mar 17 NZ\$m	31 Mar 18 NZ\$m	31 Mar 17 NZ\$m
New and increased provisions	92	42	132	116
Write-backs	(18)	(19)	(30)	(34)
Recoveries of amounts previously written-off	(12)	(6)	(18)	(12)
Individual credit impairment charge	62	17	84	70
Collective credit impairment release	(2)	(13)	(12)	(28)
Total credit impairment charge	60	4	72	42

6. IMPAIRED AND PAST DUE LOANS

	31 Mar 18 NZ\$m	30 Sep 17 NZ\$m
Loans that are at least 90 days past due but not impaired	197	182
Impaired loans	344	357

NOTES TO THE FINANCIAL STATEMENTS

7. DEPOSITS AND OTHER BORROWINGS

	Note	31 Mar 18 NZ\$m	30 Sep 17 NZ\$m
Term deposits		47,721	45,457
On demand and short term deposits		42,152	41,451
Deposits not bearing interest		9,940	8,882
UDC secured investments		958	1,039
Total customer deposits		100,771	96,829
Certificates of deposit		2,020	1,916
Deposits from banks and securities sold under repurchase agreements		1,643	157
Commercial paper		2,554	3,721
Deposits from Ultimate Parent Bank and other members of ANZ New Zealand		50	73
Deposits and other borrowings (including liabilities classified as held for sale)		107,038	102,696
Less: UDC secured investments held for sale	11	(958)	(1,039)
Deposits and other borrowings		106,080	101,657

8. DEBT ISSUANCES

	31 Mar 18 NZ\$m	30 Sep 17 NZ\$m
Senior debt	17,370	16,008
Covered bonds	3,802	5,315
Total unsubordinated debt	21,172	21,323
Subordinated debt		
- Additional Tier 1 capital	2,438	2,438
- Other	846	845
Total subordinated debt	3,284	3,283
Total debt issued	24,456	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.

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

NOTES TO THE FINANCIAL STATEMENTS

9. FAIR VALUE MEASUREMENTS

Financial assets and financial liabilities measured at fair value in 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 *Fair Value Measurement* based on the observability of inputs used to measure fair value:

- Level 1 – valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – valuations using inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly. Modelled valuation techniques are used that incorporate observable market inputs for securities with similar credit risk, maturity and yield characteristics; and or/current market yields for similar instruments.
- Level 3 – valuations using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

We deem transfers into and out of Level 1 and Level 2 to have occurred as at the beginning of the reporting period in which the transfer occurred.

The table below summarises the attribution of financial instruments carried at fair value to the fair value hierarchy:

	31 Mar 18				30 Sep 17			
	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	6,959	1,457	-	8,416	7,276	387	-	7,663
Derivative financial instruments	4	8,140	3	8,147	5	9,870	3	9,878
Available-for-sale assets	6,018	590	1	6,609	5,336	1,023	1	6,360
Investments backing insurance contract liabilities	-	152	-	152	-	123	-	123
Total financial assets held at fair value	12,981	10,339	4	23,324	12,617	11,403	4	24,024
Financial liabilities								
Deposits and other borrowings	-	2,554	-	2,554	-	3,721	-	3,721
Derivative financial instruments	13	7,752	1	7,766	24	9,801	1	9,826
Payables and other liabilities	179	-	-	179	151	-	-	151
Total financial liabilities held at fair value	192	10,306	1	10,499	175	13,522	1	13,698

Financial assets and financial liabilities not measured at fair value

Below is a comparison of the carrying amounts as reported on the balance sheet and fair values of financial asset and liability categories other than those categories where the carrying amount is at fair value or considered a reasonable approximation of fair value.

The fair values below have been calculated using discounted cash flow techniques where contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates or market borrowing rates of debt with similar maturities or a yield curve appropriate for the remaining term to maturity.

	31 Mar 18		30 Sep 17	
	Carrying amount NZ\$m	Fair value NZ\$m	Carrying amount NZ\$m	Fair value NZ\$m
Assets				
Net loans and advances ^{1,2}	122,719	122,900	120,539	120,588
Liabilities				
Deposits and other borrowings ^{2,3}	104,484	104,539	98,975	99,030
Debt issuances ¹	24,456	24,804	24,606	25,018

¹ Fair value hedging is applied to certain financial instruments within these categories. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.

² Amounts include UDC items classified as held for sale.

³ Excludes commercial paper (note 7) designated at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

10. CREDIT RELATED COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

Credit related commitments and contingencies	31 Mar 18 NZ\$m	30 Sep 17 NZ\$m
Contract amount of:		
Undrawn facilities	28,148	26,769
Guarantees and letters of credit	914	1,010
Performance related contingencies	1,669	1,598
Total	30,731	29,377

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

Other contingent liabilities

There are outstanding court proceedings, claims and possible claims for and against the Banking Group. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions 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 (including a recent request from the Financial Markets Authority and RBNZ for all New Zealand banks to provide an overview of both work undertaken and ongoing work to identify and address conduct and culture risk) 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.

11. 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 New Zealand's Overseas Investment Office had declined HNA's application to acquire UDC and the agreement with HNA was terminated in January 2018.

On 20 March 2018, the Bank announced that it was continuing to examine a broad range of options for UDC's future including an Initial Public Offering (IPO) and trade sale. As a result of the ongoing process, the assets and liabilities of UDC meet the criteria to be classified as held for sale as at 31 March 2018.

Paymark Limited (Paymark)

On 17 January 2018, the Bank entered into an agreement to sell its 25% shareholding in Paymark to Ingenico Group. The carrying amount of the Banking Group's investment in Paymark at 31 March 2018 was NZ\$7 million and the asset is classified as held for sale. The transaction is subject to regulatory consents.

12. SUBSEQUENT EVENTS

On 13 April 2018, the Bank issued NZ\$3,000 million of ordinary shares and paid ordinary dividends of NZ\$3,000 million to the Immediate Parent Company.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES

Guarantors

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 8 for further details, and to page 12 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 May 2018.

Changes in the Bank's Board of Directors

As at 15 May 2018 there have been changes to the Directors of the Bank since 30 September 2017, the balance date of the last full year disclosure statement. These changes were:

- The Rt Hon Sir John Phillip Key, GNZM, AC was appointed as an independent Non-Executive Director on 18 October 2017 and was appointed Chair of the Board of Directors on 1 January 2018. The RBNZ has confirmed that Sir John still qualifies as an Independent Director of the Bank following his appointment as an independent Non-Executive Director of the Ultimate Parent Bank on 28 February 2018.
- John Judge retired as a Non-Executive Director on 31 December 2017.
- Michelle Jablko was appointed as a Non-Executive Director and ceased as alternative director for Shayne Elliott on 29 March 2018.
- Nigel Williams retired as a Non-Executive Director on 29 March 2018.

Auditor

The Banking Group's auditor is KPMG, Chartered Accountants, Level 9, 10 Customhouse Quay, Wellington, New Zealand.

Changes to Conditions of Registration

The conditions of registration applying to the Bank were amended on 1 January 2018 to refer to revised versions of the RBNZ Banking Supervision Handbook documents:

- *Liquidity Policy* (BS13) which includes changes to the calculation of liquidity ratios as a consequence of the removal of off-quarter disclosure statements.
- *Framework for Restrictions on High-LVR Residential Mortgage Lending* (BS19) which includes changes to the High-LVR restrictions.

Adoption of these amendments has not resulted in any material change to the Banking Group's reported result or financial position.

Credit Rating Information

The Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations.

As at 15 May 2018, the Bank's credit ratings are:

Rating agency	Credit rating	Qualification
Standard & Poor's (S&P Global)	AA-	Outlook Negative
Fitch Ratings (Fitch)	AA-	Outlook Stable
Moody's Investors Service (Moody's)	A1	Outlook Stable

Financial Support

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 31 March 2018, the NZ Branch held approximately NZ\$3.5 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. These requirements are not expected to place additional restrictions on the Ultimate Parent Bank's ability to provide financial or operational support to the Bank.

REGISTERED BANK DISCLOSURES

B2. ADDITIONAL FINANCIAL DISCLOSURES

Additional information on the balance sheet

As at 31 March 2018	NZ\$m
Total interest earning and discount bearing assets	142,569
Total interest and discount bearing liabilities	123,146
Total amounts due from related entities	2,802
Total amounts due to related entities	4,871

Assets charged as security for liabilities

These amounts exclude the amounts disclosed as collateral paid on the balance sheet that relate to derivative liabilities. The terms and conditions of the collateral agreements are included in the standard Credit Support Annex that forms part of the International Swaps and Derivatives Association Master Agreement.

Assets charged as security for liabilities include the following types of instruments:

- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements.
- UDC secured investments are secured by a security interest granted under the 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 moneys payable by UDC under the trust deed.
- Specified residential mortgages provided as security for notes and bonds issued to investors as part of the Bank's covered bond programme.

The amortised cost of assets pledged as security are as follows:

As at 31 March 2018	Note	NZ\$m
Securities sold under agreements to repurchase		1,610
Residential mortgages pledged as security for covered bonds	8	10,865
Assets pledged as collateral for UDC secured investments		3,151

Additional information on the income statement

The amounts of net trading gains or losses and other fair value adjustments are included in note 2 to the financial statements. The Banking Group does not have any loans and advances designated at fair value through profit or loss. Other operating income for the purposes of the Order comprises Net fee and commission income, Insurance proceeds and Other (all in note 2), Net funds management and insurance income and Share of associates' profit (both shown on the income statement).

REGISTERED BANK DISCLOSURES

Additional information on 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.

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.

As at 31 March 2018	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	-	-	24	17,600	61	1,396	19,081
Forestry and fishing, agriculture services	-	-	2	1,549	5	215	1,771
Manufacturing	-	29	136	2,764	10	1,737	4,676
Electricity, gas, water and waste services	-	19	431	1,575	5	1,732	3,762
Construction	-	-	15	1,697	6	1,134	2,852
Wholesale trade	-	-	64	1,549	5	1,651	3,269
Retail trade and accommodation	-	-	20	3,086	11	877	3,994
Transport, postal and warehousing	-	29	56	1,357	5	589	2,036
Finance and insurance services	2,788	2,237	974	908	371	1,288	8,566
Public administration and safety ¹	-	8,606	631	300	5	1,213	10,755
Rental, hiring & real estate services	-	5	113	30,752	107	2,263	33,240
Professional, scientific, technical, administrative and support services	-	-	4	1,189	4	503	1,700
Households	-	-	-	53,904	188	14,235	68,327
All other New Zealand residents ²	-	31	224	2,494	10	1,750	4,509
	2,788	10,956	2,694	120,724	793	30,583	168,538
Overseas							
Finance and insurance services	2,101	4,006	4,976	137	-	148	11,368
Households	-	-	-	1,484	5	-	1,489
All other non-NZ residents	1	63	477	882	3	-	1,426
	2,102	4,069	5,453	2,503	8	148	14,283
Less: Provision for credit impairment	-	-	-	(518)	-	(72)	(590)
Less: Unearned income	-	-	-	(236)	-	-	(236)
Add: Capitalised brokerage / mortgage origination fees	-	-	-	318	-	-	318
Total financial assets	4,890	15,025	8,147	122,791	801	30,659	182,313

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.

REGISTERED BANK DISCLOSURES

Additional information on concentrations of funding

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).

Funding composition	Note	31 Mar 18 NZ\$m
Customer deposits	7	100,771
<i>Wholesale funding</i>		
Debt issuances	8	24,456
Certificates of deposit	7	2,020
Commercial paper	7	2,554
Other borrowings	7	1,693
Total wholesale funding		30,723
Total funding		131,494
Concentrations of funding by industry		
<i>Customer deposits - New Zealand residents</i>		
Agriculture, forestry and fishing		3,722
Manufacturing		2,152
Construction		1,913
Wholesale trade		1,548
Retail trade and accommodation		1,691
Financial and insurance services		9,798
Rental, hiring and real estate services		2,741
Professional, scientific, technical, administrative and support services		5,081
Public administration and safety		1,403
Arts, recreation and other services		1,914
Households		54,747
All other New Zealand residents ¹		3,926
		90,636
<i>Customer deposits - overseas</i>		
Households		9,570
All other non-NZ residents		565
		10,135
Total customer deposits		100,771
<i>Wholesale funding (financial and insurance services industry)</i>		
New Zealand		9,917
Overseas		20,806
Total wholesale funding		30,723
Total funding		131,494
Concentrations of funding by geography		
New Zealand		100,553
Australia		1,103
United States		12,670
Europe		9,830
Other countries		7,338
Total funding		131,494

¹ Other includes mining; electricity, gas, water and waste services; transport, postal and warehousing; information media and telecommunications; education and training; health care and social assistance.

REGISTERED BANK DISCLOSURES

Additional information on interest rate sensitivity

The following 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.

As at 31 March 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	2,752	2,493	-	-	-	-	259
Settlement balances receivable	763	132	-	-	-	-	631
Collateral paid	1,634	1,634	-	-	-	-	-
Trading securities	8,416	1,140	380	1,567	597	4,732	-
Derivative financial instruments	8,147	-	-	-	-	-	8,147
Available-for-sale assets	6,609	665	260	1,243	283	4,157	1
Net loans and advances	122,719	61,878	9,679	20,217	20,613	10,747	(415)
Other financial assets	801	119	27	4	2	-	649
Total financial assets	151,841	68,061	10,346	23,031	21,495	19,636	9,272
Liabilities							
Settlement balances payable	1,860	653	-	-	-	-	1,207
Collateral received	760	760	-	-	-	-	-
Deposits and other borrowings	107,038	69,735	13,170	9,365	3,471	1,357	9,940
Derivative financial instruments	7,766	-	-	-	-	-	7,766
Debt issuances	24,456	3,928	1,139	2,770	1,126	15,493	-
Payables and other liabilities	748	179	-	-	-	-	569
Total financial liabilities	142,628	75,255	14,309	12,135	4,597	16,850	19,482
Hedging instruments	-	2,836	5,909	(5,326)	(7,306)	3,887	-
Interest sensitivity gap	9,213	(4,358)	1,946	5,570	9,592	6,673	(10,210)

Additional information on liquidity risk

Maturity analysis of financial liabilities

The table below provides residual contractual maturity analysis of financial liabilities at 31 March 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 balance sheet.

As at 31 March 2018	Total NZ\$m	On demand 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
Financial liabilities						
Settlement balances payable	1,871	1,160	711	-	-	-
Collateral received	760	-	760	-	-	-
Deposits and other borrowings	116,041	59,784	27,109	23,905	5,243	-
Derivative financial liabilities (trading)	6,115	-	6,115	-	-	-
Debt issuances	26,715	-	892	3,665	15,684	6,474
Other financial liabilities	407	-	46	23	87	251
Derivative financial instruments (balance sheet management)						
- gross inflows	14,113	-	913	2,945	7,251	3,004
- gross outflows	(14,166)	-	(974)	(3,176)	(7,288)	(2,728)

As at 31 March 2018	Total NZ\$m	Less than 1 year NZ\$m	Beyond 1 year NZ\$m
Off-balance sheet commitments and contingent liabilities			
Non-credit related commitments	457	56	401
Credit related commitments and contingencies	30,731	30,731	-

REGISTERED BANK DISCLOSURES

Liquidity portfolio

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

As at 31 March 2018	NZ\$m
Cash and balances with central banks	1,919
Certificates of deposit	425
Government, local body stock and bonds	6,765
Government treasury bills	1,026
Reserve Bank bills	370
Other bonds	5,544
Total liquidity portfolio	16,049

The Bank also held unencumbered internal residential mortgage backed securities which would entitle the Banking Group to enter into repurchase transactions with a value of NZ\$6,843 million at 31 March 2018.

Reconciliation of mortgage-related amounts

As at 31 March 2018	Note	NZ\$m
Term loans - housing ¹	4	75,020
Less: fair value hedging adjustment		(24)
Less: housing loans made to corporate customers		(2,269)
Add: unsettled re-purchases of mortgages from the NZ Branch		51
On-balance sheet retail mortgage exposures subject to the IRB approach	B4	72,778
Add: off-balance sheet retail mortgage exposures subject to the IRB approach	B4	8,264
Total retail mortgage exposures subject to the IRB approach (as per LVR analysis)	B4	81,042

¹ Term loans – housing includes loans secured over residential property for owner-occupier, residential property investment and business purposes.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY

Past due assets

	Retail mortgages NZ\$m	Other retail exposures NZ\$m	Non-retail exposures NZ\$m	Total NZ\$m
As at 31 March 2018				
Less than 30 days past due	564	177	607	1,348
At least 30 days but less than 60 days past due	133	42	96	271
At least 60 days but less than 90 days past due	108	19	10	137
At least 90 days past due	143	36	18	197
Total past due but not impaired	948	274	731	1,953

Movement in individually impaired assets

	Retail mortgages NZ\$m	Other retail exposures NZ\$m	Non-retail exposures NZ\$m	Total NZ\$m
For the six months ended 31 March 2018				
Balance at beginning of the period	31	20	306	357
Additions	11	53	116	180
Amounts written off	(2)	(38)	(38)	(78)
Deletions	(20)	(12)	(83)	(115)
Balance at end of the period	20	23	301	344
Individual provision	21	7	147	175

Movement in balances of individual credit impairment allowances

	Retail mortgages NZ\$m	Other retail exposures NZ\$m	Non-retail exposures NZ\$m	Total NZ\$m
For the six months ended 31 March 2018				
Balance at beginning of the period	25	6	121	152
<i>Individual credit impairment charge / (release)</i>				
New and increased provisions	3	45	84	132
Write-backs	(5)	(6)	(19)	(30)
Recoveries of amounts previously written off	-	(11)	(7)	(18)
Individual credit impairment charge / (release)	(2)	28	58	84
Bad debts written off	(2)	(38)	(38)	(78)
Add back recoveries of amounts previously written off	-	11	7	18
Discount unwind	-	-	(1)	(1)
Balance at end of the period	21	7	147	175

Movement in balances of collective credit impairment allowances

	Retail mortgages NZ\$m	Other retail exposures NZ\$m	Non-retail exposures NZ\$m	Total NZ\$m
For the six months ended 31 March 2018				
Balance at beginning of the period	75	121	231	427
Charge / (release) to income statement	6	5	(23)	(12)
Balance at end of the period	81	126	208	415

Asset quality for 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

	Retail mortgages NZ\$m	Other retail exposures NZ\$m	Non-retail exposures NZ\$m	Total NZ\$m
As at 31 March 2018				
Undrawn facilities with impaired customers	-	-	12	12
Other assets under administration	8	3	-	11

REGISTERED BANK DISCLOSURES

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS

RBNZ Basel III capital ratios

	Banking Group			Bank (Solo Consolidated)	
	RBNZ minimum	31 Mar 18	31 Mar 17	31 Mar 18	31 Mar 17
Common equity tier 1 capital	4.5%	11.0%	10.2%	9.5%	9.2%
Tier 1 capital	6.0%	14.4%	13.5%	13.0%	12.7%
Total capital	8.0%	14.4%	13.8%	13.0%	13.0%
Buffer ratio	2.5%	6.4%	5.7%	n/a	n/a

Capital of the Banking Group

As at 31 March 2018	NZ\$m
Tier 1 capital	
<i>Common equity tier 1 (CET1) capital</i>	
Paid up ordinary shares issued by the Bank	8,588
Retained earnings (net of appropriations)	3,999
Accumulated other comprehensive income and other disclosed reserves	46
<i>Less deductions from common equity tier 1 capital</i>	
Goodwill and intangible assets, net of associated deferred tax liabilities	(3,389)
Cash flow hedge reserve	(34)
Expected losses to the extent greater than total eligible allowances for impairment	(311)
Common equity tier 1 capital	8,899
<i>Additional tier 1 capital</i>	
Preference shares	300
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN)	500
NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN)	1,003
NZD 938m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN2)	938
Retained earnings of the Bonus Bonds Scheme	54
<i>Less deductions from additional tier 1 capital</i>	
Surplus retained earnings of the Bonus Bonds Scheme	(15)
Additional tier 1 capital	2,780
Total tier 1 capital	11,679
Tier 2 capital	-
Total capital	11,679

Capital requirements of the Banking Group

As at 31 March 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	181,608	69,364	5,550
Operational risk	n/a	5,921	474
Market risk	n/a	3,968	317
Agri business supervisory adjustment	n/a	1,818	145
Total	181,608	81,071	6,486

¹ The calculation of capital requirements for total credit risk includes a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

REGISTERED BANK DISCLOSURES

Capital structure

Ordinary shares- common equity tier 1 capital

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

Preference shares – additional tier 1 capital

All preference shares were issued by the Bank to the Immediate Parent and do not carry any voting rights. The preference shares are wholly classified as equity instruments as there is no contractual obligation for the Bank to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavourable basis. The key terms of the preference shares are as follows:

Dividends are payable at the discretion of the directors of the Bank and are non-cumulative. The Bank must not resolve to pay any dividend or make any other distribution on its ordinary shares until the next preference dividend payment date if the dividend on the preference shares is not paid.

Should the Bank elect to pay a dividend, the dividend is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 325 basis point margin, multiplied by one minus the New Zealand company tax rate, with dividend payments due on 1 March and 1 September each year.

The preference shares are redeemable, subject to prior written approval of the RBNZ, by the Bank providing notice in writing to holders of the preference shares:

- on any date on or after a change to laws or regulations that adversely affects the regulatory capital or tax treatment of the preference shares or
- on any dividend payment date 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.

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.

ANZ capital notes – additional tier 1 capital

ANZ capital notes are fully paid convertible non-cumulative perpetual subordinated notes. 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.

As at 31 March 2018, 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 payments on the ANZ capital notes are non-cumulative and subject to the Bank's absolute discretion and certain payment conditions (including RBNZ and, in respect of the ANZ NZ CN, APRA requirements).

Where specified, ANZ 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.

Where specified, ANZ 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) 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, subject to a maximum conversion number (ANZ NZ CN).

The Bank will be required to convert some or all of the notes 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
- a Non-Viability Trigger Event occurs.

ANZ capital notes mandatorily convert into a variable number of ordinary shares of the Bank (ANZ NZ ICN) or Ultimate Parent Bank (ANZ NZ CN) on similar terms as early redemption or conversion:

- on a specified date; or
- on an earlier date under certain circumstances.

However, the mandatory conversion is deferred for a specified period if certain conversion tests are not met.

REGISTERED BANK DISCLOSURES

	ANZ NZ CN	ANZ NZ ICN	ANZ NZ ICN2
Issuer	The Bank	The Bank	The Bank
Issued to	Listed on NZX	NZ Branch	NZ Branch
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 thereafter
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 31 March 2018 (net of issue costs)	NZ\$497 million	NZ\$1,003 million	NZ\$938 million

Reserves – common equity tier 1 capital

Common equity tier 1 capital includes the available-for-sale revaluation reserve of NZ\$12 million as at 31 March 2018.

Retained earnings of the Bonus Bonds Scheme – additional tier 1 capital

The Bonus Bonds Scheme is consolidated for capital adequacy purposes, and its retained earnings are included in additional tier 1 capital less 8.5% of the consolidated risk-weighted assets that relate to the Bonus Bonds Scheme.

REGISTERED BANK DISCLOSURES

Credit risk subject to the Internal Ratings Based (IRB) approach

IRB credit exposures by exposure class and customer credit rating

As at 31 March 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	6,229	62	42	2,802	224
3 - 4	0.33	21,494	35	39	8,814	705
5	0.99	13,989	34	60	8,968	717
6	2.28	4,117	33	77	3,351	268
7 - 8	14.16	1,887	39	161	3,214	257
Default	100.00	375	49	113	451	37
Total corporate exposures	1.97	48,091	38	54	27,600	2,208
Sovereign						
0	0.01	11,971	5	1	132	11
1 - 8	0.02	449	5	1	4	-
Total sovereign exposures	0.01	12,420	5	1	136	11
Bank						
0	0.03	70	65	16	12	1
1	0.03	10,318	58	27	2,981	238
2 - 4	0.10	887	64	39	369	30
Total bank exposures	0.04	11,275	59	28	3,362	269
Retail mortgages						
0 - 3	0.20	22,724	12	6	1,396	112
4	0.46	32,509	18	15	5,054	404
5	0.92	21,173	23	31	6,999	560
6	1.98	4,684	26	61	3,022	242
7 - 8	4.99	383	27	99	400	32
Default	100.00	203	20	16	34	2
Total retail mortgages exposures	0.86	81,676	18	20	16,905	1,352
Other retail						
0 - 2	0.10	554	77	50	291	23
3 - 4	0.27	4,900	78	55	2,834	227
5	1.03	1,916	72	74	1,505	120
6	2.31	2,054	71	89	1,940	155
7 - 8	8.74	1,502	85	133	2,117	169
Default	100.00	80	78	44	37	4
Total other retail exposures	2.65	11,006	77	75	8,724	698
Total credit risk exposures subject to the IRB approach	1.19	164,468	30	33	56,727	4,538

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

IRB credit exposures: On-balance sheet, off-balance sheet and market related contracts

As at 31 March 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	35,764	34,922	34	54	19,986	1,599
Sovereign	12,255	11,978	5	1	113	9
Bank	6,327	5,769	58	19	1,175	94
Retail mortgages	72,778	73,006	19	20	15,594	1,247
Other retail	5,284	5,371	74	93	5,318	426
Total on-balance sheet exposures	132,408	131,046	25	30	42,186	3,375
Off-balance sheet exposures						
Corporate	12,926	10,167	48	47	5,092	407
Sovereign	381	358	5	1	3	-
Bank	1,479	1,177	50	18	222	18
Retail mortgages	8,264	8,670	16	14	1,311	105
Other retail	5,750	5,635	79	57	3,406	272
Total off-balance sheet exposures	28,800	26,007	43	36	10,034	802
Market related contracts						
Corporate	102,054	3,002	61	79	2,522	202
Sovereign	15,576	84	5	23	20	2
Bank	1,033,561	4,329	62	43	1,965	157
Total market related contracts	1,151,191	7,415	61	57	4,507	361
Total credit risk exposures subject to the IRB approach	1,312,399	164,468	30	33	56,727	4,538

Other IRB credit exposures

As at 31 March 2018	Exposure at default NZ\$m	Risk weight %	Risk weighted exposure NZ\$m	Total capital requirement NZ\$m
Cash	259	-	-	-
New Zealand dollar denominated claims on the Crown and the RBNZ	1,631	-	-	-
Other assets	1,551	100	1,644	132
Total other IRB credit risk exposures	3,441	45	1,644	132

Other IRB credit exposures have been calculated in accordance with BS2B.

Additional mortgage information

As required by the 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 31 March 2018	On-balance sheet NZ\$m	Off-balance sheet NZ\$m	Total NZ\$m
LVR range			
Does not exceed 60%	35,642	5,445	41,087
Exceeds 60% and not 70%	16,533	1,379	17,912
Exceeds 70% and not 80%	16,731	1,110	17,841
Does not exceed 80%	68,906	7,934	76,840
Exceeds 80% and not 90%	2,469	150	2,619
Exceeds 90%	1,403	180	1,583
Total retail mortgage exposures	72,778	8,264	81,042

REGISTERED BANK DISCLOSURES

Specialised lending subject to the slotting approach

As at 31 March 2018	Exposure at default NZ\$m	Risk weight %	Risk weighted exposure NZ\$m	Total capital requirement NZ\$m
On-balance sheet exposures				
Strong	4,331	70	3,214	257
Good	5,554	90	5,299	424
Satisfactory	441	115	537	43
Weak	51	250	135	11
Default	33	-	-	-
Total on-balance sheet exposures	10,410	83	9,185	735

As at 31 March 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	1,361	1,300	82	1,130	90
Market related contracts	2,059	103	133	145	12
Total off-balance sheet exposures	3,420	1,403	86	1,275	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 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

As at 31 March 2018	Exposure at default NZ\$m	Risk weight %	Risk weighted exposure NZ\$m	Total capital requirement NZ\$m
On-balance sheet exposures				
Corporates	133	72	101	8
Default	1	150	1	-
Total on-balance sheet exposures	134	73	102	8

As at 31 March 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						
Undrawn commitments and other off balance sheet exposures	569	59	333	96	338	27
Market related contracts	226,446	1	1,411	4	60	5
Total off balance sheet	227,015	n/a	1,744	22	398	32

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

Equity exposures

As at 31 March 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	8	400	33	3

Equity exposures have been calculated in accordance with BS2B.

Credit risk mitigation

As at 31 March 2018, under the IRB approach, the Banking Group had NZ\$936 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.

REGISTERED BANK DISCLOSURES

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 31 March 2018 the Banking Group had an implied risk weighted exposure of NZ\$5,921 million for operational risk and an operational risk capital requirement of NZ\$474 million.

Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B. The peak end-of-day market risk exposures are for the six months ended 31 March 2018.

	Implied risk weighted exposure		Aggregate capital charge		Peak occurred on
	Period end	Peak	Period end	Peak	
As at 31 March 2018	NZ\$m	NZ\$m	NZ\$m	NZ\$m	
Interest rate risk	3,914	6,821	313	546	24/01/2018
Foreign currency risk	53	183	4	15	6/02/2018
Equity risk	1	1	-	-	31/03/2018
	3,968		317		

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\$399 million (March 2017: NZ\$435 million).

Information about Ultimate Parent Bank and Overseas Banking Group

APRA Basel III capital ratios

	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
	31 Mar 18	31 Mar 17	31 Mar 18	31 Mar 17
Common equity tier 1 capital	11.0%	10.1%	10.9%	10.2%
Tier 1 capital	12.9%	12.1%	12.9%	12.3%
Total capital	14.9%	14.5%	15.1%	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 several 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 31 March 2018.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 31 March 2018. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 31 March 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.

Regulatory liquidity ratios

For the three months ended	31 Mar 18	31 Dec 17
Quarterly average core funding ratio	89.8%	89.1%
Quarterly average one-month mismatch ratio	5.5%	5.6%
Quarterly average one-week mismatch ratio	5.6%	5.6%

REGISTERED BANK DISCLOSURES

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
- any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

	As at 31 Mar 18	Peak end of day over 3 months to 31 Mar 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	1	-
- 15% to less than 20% of CET1 capital	2	3
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 (ie corporates) that are greater than 10% of CET1 capital	-	2
with a long-term credit rating of A- or A3 or above, or its equivalent	-	2
- 10% to less than 15% of CET1 capital	-	2
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

B6. INSURANCE BUSINESS

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 assets of OnePath Life of NZ\$984 million, which is 0.6% of the total consolidated assets of the Banking Group.

DIRECTORS' STATEMENT

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

- (i) The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014
- (ii) The Disclosure Statement is not false or misleading.

Over the six months ended 31 March 2018, after due enquiry, each Director believes that:

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

This Disclosure Statement is dated, and has been signed by or on behalf of all Directors of the Bank on, 15 May 2018.

Antony Carter



Shayne Elliott



David Hisco



Michelle Jablko



The Rt Hon Sir John Key, GNZM, AC



Mark Verbiest



Joan Withers





Independent Review Report

To the shareholder of ANZ Bank New Zealand Limited

Report on the half year disclosure statement

Conclusion

Based on our review of the interim financial statements and the registered bank disclosures (together referred to as 'the disclosure statement') of ANZ Bank New Zealand Limited (the Banking Group) on pages 2 to 26, nothing has come to our attention that causes us to believe that:

- i. the interim financial statements on pages 2 to 10 do not present fairly in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting, in all material respects, the Banking Group's financial position as at 31 March 2018 and its financial performance and cash flows for the 6 month period ended on that date;
- ii. the registered bank disclosures in sections B1, B2, B3, B5 and B6 disclosed in accordance with schedules 5, 7, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) ('the Order') respectively, do not fairly state, in all material respects, the matters to which they relate in accordance with those schedules
- iii. the registered bank disclosures relating to capital adequacy and liquidity requirements in section B4 are not, in all material respects, disclosed in accordance with schedule 11 of the Order.

We have completed a review of the accompanying half year disclosure statement which comprises:

- the interim financial statements formed of:
 - the consolidated balance sheet as at 31 March 2018;
 - the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
 - notes, including a summary of significant accounting policies and other explanatory information.
- the registered bank disclosures prescribed in Schedules 5, 7, 11, 13, 16 and 18 of the Order.



Basis for conclusion

A review of the half year disclosure statement in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of 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.

Our firm has also provided other services to the Banking Group in relation to review and other assurance engagements. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as reviewer of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.



Use of this independent review report

This independent review report is made solely to the shareholder of the Banking Group. Our review work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder for our review work, this independent review report, or any of the opinions we have formed.



Responsibilities of the Directors for the half year disclosure statement

The Directors, on behalf of the Banking Group, are responsible for:

- the preparation and fair presentation of the half year disclosure statement in accordance with IAS 34, NZ IAS 34 and Schedules 3, 5, 7, 13, 16 and 18 of the Order;
- the preparation and fair presentation of the registered bank disclosures in regards to capital adequacy and liquidity requirements in accordance with Schedule 11 of the Order;
- implementing necessary internal control to enable the preparation of a half year disclosure statement that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the review of the half year disclosure statement

Our responsibility is to express a conclusion on the half year disclosure statement based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the:

- the interim financial statements do not present fairly in all material respects the Banking Group's financial position as at 31 March 2018 and its financial performance and cash flows for the 6 month period ended on that date;
- the interim financial statements do not, in all material respects, comply with IAS 34 and NZ IAS 34;
- the registered bank disclosures in sections B1, B2, B3, B5 and B6 does not, fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order; and
- the registered bank disclosures relating to capital adequacy and liquidity requirements in section B4 is not, in all material respects, disclosed in accordance with schedule 11 of the Order

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the half year disclosure statement. This description forms part of our independent review report.



KPMG
Auckland

15 May 2018

BANK FINANCIAL STRENGTH DASHBOARD

Background

This section does not form part of the Disclosure Statement and contains the information in respect of the Banking Group included on the Bank Financial Strength Dashboard (Dashboard) published on the RBNZ's website. Amounts below may differ slightly from those published by the RBNZ due to rounding differences. The tables below include reconciliations to amounts included in the Disclosure Statement where there are classification differences between the financial statements and the Dashboard.

D2. CAPITAL ADEQUACY

Capital ratios

As at 31 March 2018	
Total capital ratio	14.4%
Common equity tier 1 (CET1) capital ratio	11.0%
Tier 1 capital ratio	14.4%
Buffer ratio	6.4%
Total capital ratio regulatory minimum	8.0%

Risk weighted assets

As at 31 March 2018	Disclosure Statement NZ\$m	Classification differences			Dashboard NZ\$m
		Default exposures NZ\$m	Credit valuation adjustments NZ\$m	Exposure categories NZ\$m	
Sovereign / quasi-sovereign	136	-	(19)	-	117
Public sector entities	-	-	-	308	308
Registered banks	3,362	-	(1,005)	(308)	2,049
Corporates	27,600	(451)	(1,111)	10,398	36,436
Retail / Residential mortgages	16,905	(34)	-	-	16,871
Other retail	8,724	(37)	-	(8,687)	-
Specialised lending exposures subject to slotting approach	10,460	-	(62)	(10,398)	-
Exposures subject to standardised approach	500	(1)	-	(499)	-
Problem loans	-	523	-	-	523
Equity holdings	33	-	-	-	33
Credit risk supervisory adjustment	-	-	-	1,818	1,818
All other assets	1,644	-	2,197	9,186	13,027
Credit risk	69,364	-	-	1,818	71,182
Market risk	3,968	-	-	-	3,968
Operational risk	5,921	-	-	-	5,921
Agri business supervisory adjustment	1,818	-	-	(1,818)	-
Total risk weighted assets	81,071	-	-	-	81,071

D3. ASSET QUALITY

As at 31 March 2018	Housing NZ\$m	Consumer NZ\$m	Business NZ\$m	Agriculture NZ\$m	All other NZ\$m	Total NZ\$m
Total loans	72,379	3,538	28,840	17,166	1,374	123,297
Impaired loans	45	8	130	75	86	344
Loans 90 days past due but not impaired	141	28	23	5	-	197
Total non-performing loans	186	36	153	80	86	541
Non-performing loans ratio (%)	0.26%	1.02%	0.53%	0.47%	6.26%	0.44%
Individual provisions	11	6	78	24	56	175
Collective provisions	67	66	91	42	148	414
<i>On-balance sheet residential mortgage exposures with LVRs that:</i>						
Exceeds 80% and not 90%						3.4%
Exceeds 90%						1.9%

A reconciliation of the amounts in this table to the financial statements is included in the Other Information on page 31.

D1. CREDIT RATINGS

As at 31 March 2018	Credit rating
S&P Global	AA-
Fitch	AA-
Moody's	A1

Capital

As at 31 March 2018	NZ\$m
CET1 capital	12,633
CET1 deductions	(3,734)
Net CET1 capital	8,899
Total additional tier 1 capital	2,780
Total tier 1 capital	11,679
Total capital	11,679

BANK FINANCIAL STRENGTH DASHBOARD

D4. PROFITABILITY / PERFORMANCE

	Financial statements NZ\$m	Classification differences		Dashboard NZ\$m
		Funds management income and other commissions NZ\$m		
3 months to 31 March 2018				
Total interest income	1,577	-		1,577
Total interest expense	806	-		806
Net interest income	771	-		771
Gains/losses on trading and hedging	46	-		46
Fee and commission income	98	63		161
All other income	121	(63)		58
Operating expenses	361	-		361
Impaired asset expense	60	-		60
Profit before tax	615	-		615
Tax expense	167	-		167
Profit after tax	448	-		448
Return on assets (%)				1.2%
Return on equity (%)				13.7%
Net interest margin (%)				2.2%

D5. FINANCIAL POSITION

	Financial statements NZ\$m	Classification differences			Dashboard NZ\$m
		Nostris / vobros and other bank deposits NZ\$m	Securities purchased under agreements to re-sell NZ\$m	Subordinated debt issued to related parties NZ\$m	
As at 31 March 2018					
Cash and bank deposits ¹	4,386	247	(862)	-	3,771
Debt securities held ²	15,177	(86)	-	-	15,091
Net loans and advances	122,719	-	-	-	122,719
Derivatives in an asset position	8,147	-	-	-	8,147
All other assets	5,933	(161)	862	-	6,634
Total assets	156,362	-	-	-	156,362
Deposits	100,771	-	-	-	100,771
Debt securities issued ³	29,030	-	-	(1,952)	27,078
Other borrowings ⁴	2,453	1,160	-	1,952	5,565
Derivatives in a liability position	7,766	-	-	-	7,766
All other liabilities	3,409	(1,160)	-	-	2,249
Total liabilities	143,429	-	-	-	143,429
Equity	12,933	-	-	-	12,933

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 31 March 2018

Quarterly average core funding ratio	89.8%
Quarterly average one-month mismatch ratio	5.5%
Quarterly average one-week mismatch ratio	5.6%

D7. LARGE EXPOSURES

As at 31 March 2018

Top 5 credit exposures to non-bank counterparties (ie corporates) as a ratio of CET1 capital	28.3%
Credit exposures to non-bank counterparties (ie corporates) that are greater than 10% of CET1 capital	-
Top 5 credit exposures to banks as a ratio of CET1 capital	61.9%
Credit exposures to banks that are greater than 10% of CET1 capital	3

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.

As at 31 March 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	4	75,020	n/a	n/a	n/a	48,207	123,227
Fair value hedge adjustment		(24)	-	-	-	24	-
Business loans secured by residential property		(2,617)	-	-	337	2,280	-
Residential investor property		(20,529)	-	-	47	20,482	-
Other household and agriculture industry loans		-	3,538	-	17,216	(20,754)	-
Concentration of loans by industry ²	B2	51,850	3,538	-	17,600	50,239	123,227
Fair value hedge adjustments		-	-	-	-	(24)	(24)
Unearned income on finance leases		-	-	-	-	(197)	(197)
Deposit components of overdraft product		-	-	-	-	291	291
Residential investor property		20,529	-	-	(47)	(20,482)	-
Business lending		-	-	28,466	(50)	(28,416)	-
Loans by purpose (RBNZ series S31)		72,379	3,538	28,466	17,503	1,411	123,297
Other business loans secured by residential property		-	-	374	(337)	(37)	-
Total loans per Dashboard	D3	72,379	3,538	28,840	17,166	1,374	123,297

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 B2 comprise Housing and Consumer.

**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

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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
<i>Items that will not be reclassified to profit or loss</i>		
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
<i>Items that may be reclassified subsequently to profit or loss</i>		
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

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

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		
<i>Financial assets at fair value through profit or loss</i>		
Trading securities	351	453
<i>Financial assets not at fair value through profit or loss</i>		
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		
<i>Financial liabilities at fair value through profit or loss</i>		
Commercial paper	122	226
<i>Financial liabilities not at fair value through profit or loss</i>		
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	Year to 30/09/2016
	NZ\$m	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 analysis¹

	Retail NZ\$m	Commercial NZ\$m	Institutional NZ\$m	Other NZ\$m	Total NZ\$m
30/09/2017					
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

	Retail	Commercial	Institutional	Other	Total
30/09/2016	NZ\$m	NZ\$m	NZ\$m	NZ\$m	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	30/09/2016
	NZ\$m	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	30/09/2016
	NZ\$m	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	30/09/2016
	NZ\$m	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		Notional principal amount NZ\$m	Fair values	
		Assets NZ\$m	Liabilities NZ\$m		Assets NZ\$m	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	30/09/2016
	NZ\$m	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	30/09/2016
	NZ\$m	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	30/09/2016
	NZ\$m	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

	30/09/2017	30/09/2016
	NZ\$m	NZ\$m
	Note	
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)
Less: Unearned income		(222)
Add: Capitalised brokerage/mortgage origination fees		334
Add: Customer liability for acceptances ¹		-
Net loans and advances (including assets classified as held for sale)		120,539
Less: UDC net loans and advances held for sale	29	(2,912)
Net loans and advances		117,627

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	Other retail exposures	Non-retail exposures	Total	Retail mortgages	Other retail exposures	Non-retail exposures	Total
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	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	Other retail exposures	Non-retail exposures	Total	Retail mortgages	Other retail exposures	Non-retail exposures	Total
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	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	Other retail exposures	Non-retail exposures	Total	Retail mortgages	Other retail exposures	Non-retail exposures	Total
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	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	30/09/2016
	NZ\$m	NZ\$m
ANZ Capital Notes¹		
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.

NOTES TO THE FINANCIAL STATEMENTS

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	Other retail exposures	Non-retail exposures	Total	Retail mortgages	Other retail exposures	Non-retail exposures	Total
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	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	Low for	Average for	Period end	High for	Low for	Average for
	NZ\$m	year	year	year	NZ\$m	year	year	year
		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	Low for	Average for
	NZ\$m	year	year	year
		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

NOTES TO THE FINANCIAL STATEMENTS

Liquidity risk

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

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

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

- Maintaining the ability to meet all payment obligations in the immediate term.
- Ensuring the ability to meet "survival horizons" under 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
<i>Wholesale funding</i>			
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	30/09/2016
	NZ\$m	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 value¹

	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 liabilities¹

The carrying amounts of assets pledged as security are as follows:

	Carrying Amount		Related Liability	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
	NZ\$m	NZ\$m	NZ\$m	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 assets¹

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	30/09/2016
	NZ\$m	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 NZ\$m	Related amounts not offset ¹		Net amounts NZ\$m
		Financial instruments NZ\$m	Cash collateral NZ\$m	
30/09/2017				
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 respect 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	30/09/2016
	NZ\$m	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

	30/09/2017	30/09/2016
Note	NZ\$m	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	-
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		
<i>Common equity tier 1 capital</i>		
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
<i>Less deductions from common equity tier 1 capital</i>		
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
<i>Additional tier 1 capital</i>		
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		
<i>Qualifying tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements</i>		
NZD 835,000,000 perpetual subordinated bond	17	835
<i>Less deductions from tier 2 capital</i>		
Basel III transition adjustment ¹		(601)
Total tier 2 capital		234
Total capital		11,739

Capital requirements of the Banking Group

	Exposure at default NZ\$m	Risk weighted exposure or implied risk weighted exposure ² NZ\$m	Total capital requirement NZ\$m
Unaudited 30/09/2017			
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

	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
Unaudited 30/09/2017						
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

NOTES TO THE FINANCIAL STATEMENTS

IRB exposures by customer credit rating

Unaudited 30/09/2017	Probability of default	Exposure at default	Exposure-weighted LGD used for the capital calculation	Exposure-weighted risk weight	Risk weighted exposure	Total capital requirement
	%	NZ\$m	%	%	NZ\$m	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

	Exposure at default NZ\$m	Risk weight %	Risk weighted exposure NZ\$m	Total capital requirement NZ\$m
Unaudited 30/09/2017				
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

	Exposure at default NZ\$m	Risk weight %	Risk weighted exposure NZ\$m	Total capital requirement NZ\$m
Unaudited 30/09/2017				
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.

	Implied risk weighted exposure		Aggregate capital charge		Peak occurred on
	Period end NZ\$m	Peak NZ\$m	Period end NZ\$m	Peak NZ\$m	
Unaudited 30/09/2017					
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.

Unaudited	30/09/2017		Total NZ\$m
	On-balance sheet NZ\$m	Off-balance sheet 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	30/09/2016
	NZ\$m	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	30/09/2016
	NZ\$m	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	30/09/2016
	NZ\$m	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 year¹				
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 year³				
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 limit⁴				
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	Year to 30/09/2016	Year to 30/09/2015	Year to 30/09/2014	Year to 30/09/2013
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	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	As at 30/09/2016	As at 30/09/2015	As at 30/09/2014	As at 30/09/2013
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	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.

CONDITIONS OF REGISTRATION

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.

CONDITIONS OF REGISTRATION

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;

CONDITIONS OF REGISTRATION

- (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



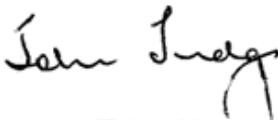
Shayne Elliott



David Hisco



John Judge



The Rt Hon. Sir John Key, GNZM, AC



Mark Verbiest



Nigel Williams



Joan Withers





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.



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



- 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
Wellington

15 November 2017

**ANZ BANK NEW ZEALAND LIMITED
ANNUAL REPORT AND REGISTERED BANK DISCLOSURE STATEMENT**

FOR THE YEAR ENDED 30 SEPTEMBER 2016
NUMBER 83 | ISSUED NOVEMBER 2016

ANNUAL REPORT AND REGISTERED BANK DISCLOSURE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2016

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ANNUAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2016

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 2016 and the audit report on those financial statements.

For and on behalf of the Board of Directors:



John Judge
Chairman
18 November 2016



David Hisco
Executive Director
18 November 2016

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.

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 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Interest income	3	6,423	6,926
Interest expense	3	3,421	4,051
Net interest income		3,002	2,875
Net trading gains	4	12	262
Net funds management and insurance income	4	414	385
Other operating income	4	421	523
Share of associates' profit		5	5
Operating income		3,854	4,050
Operating expenses	5	1,599	1,512
Profit before credit impairment and income tax		2,255	2,538
Credit impairment charge	14	150	74
Profit before income tax		2,105	2,464
Income tax expense	6	570	681
Profit after income tax		1,535	1,783

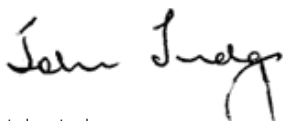
STATEMENT OF COMPREHENSIVE INCOME

	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Profit after income tax	1,535	1,783
<i>Items that will not be reclassified to profit or loss</i>		
Actuarial gain / (loss) on defined benefit schemes	18	(32)
Income tax credit / (expense) relating to items not reclassified	(5)	9
Total items that will not be reclassified to profit or loss	13	(23)
<i>Items that may be reclassified subsequently to profit or loss</i>		
Unrealised gains recognised directly in equity	91	12
Realised losses / (gains) transferred to the income statement	9	(16)
Income tax credit / (expense) relating to items that may be reclassified	(28)	1
Total items that may be reclassified subsequently to profit or loss	72	(3)
Total comprehensive income for the year	1,620	1,757

BALANCE SHEET

	Note	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Assets			
Cash	9	2,274	2,380
Settlement balances receivable		396	309
Collateral paid		2,310	1,929
Trading securities	10	11,979	12,139
Investments backing insurance contract liabilities		119	151
Derivative financial instruments	11	21,110	17,658
Available-for-sale assets	12	2,859	1,428
Net loans and advances	13	114,623	106,357
Other assets	24	701	740
Life insurance contract assets		630	552
Investments in associates		7	4
Premises and equipment		387	388
Goodwill and other intangible assets	25	3,424	3,492
Total assets		160,819	147,527
Interest earning and discount bearing assets		134,489	124,785
Liabilities			
Settlement balances payable		1,771	1,844
Collateral received		529	1,687
Deposits and other borrowings	15	99,066	90,678
Derivative financial instruments	11	21,956	17,230
Current tax liabilities		21	87
Deferred tax liabilities	6	145	124
Payables and other liabilities	26	1,119	1,487
Provisions	27	206	191
Debt issuances	16	20,014	19,403
Subordinated debt	17	3,282	2,343
Total liabilities		148,109	135,074
Net assets		12,710	12,453
Equity			
Share capital	28	8,888	8,888
Reserves		62	(10)
Retained earnings		3,760	3,575
Total equity		12,710	12,453
Interest and discount bearing liabilities		115,961	108,629

For and on behalf of the Board of Directors:



John Judge
Chairman
18 November 2016



David Hisco
Executive Director
18 November 2016

CASH FLOW STATEMENT

	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Note		
Cash flows from operating activities		
Interest received	6,443	6,857
Dividends received	2	89
Net funds management and insurance income	332	303
Fees and other income received	642	662
Interest paid	(3,416)	(3,985)
Operating expenses paid	(1,495)	(1,387)
Income taxes paid	(648)	(587)
Cash flows from operating profits before changes in operating assets and liabilities	1,860	1,952
Net changes in operating assets and liabilities:		
Change in settlements receivable	(19)	4
Change in collateral paid	(381)	(1,146)
Change in trading securities	164	(208)
Change in derivative financial instruments	(2,028)	2,837
Change in available-for-sale assets	(1,381)	(634)
Change in insurance investment assets	32	39
Change in loans and advances	(9,435)	(12,198)
Proceeds from sale of loans and advances to NZ Branch	697	1,891
Change in settlements payable	(67)	519
Change in collateral received	(1,158)	887
Change in deposits and other borrowings	9,142	6,511
Net changes in operating assets and liabilities	(4,434)	(1,498)
Net cash flows provided by / (used in) operating activities	8	454
Cash flows from investing activities		
Proceeds from sale of premises and equipment	17	-
Proceeds from sale of insurance policies	23	-
Purchase of intangible assets	(29)	(73)
Purchase of premises and equipment	(71)	(59)
Net cash flows used in investing activities	(60)	(132)
Cash flows from financing activities		
Proceeds from issue of debt issuances	7,380	4,212
Proceeds from issue of subordinated debt	938	1,497
Proceeds from issue of ordinary shares	-	675
Redemptions of debt issuances	(4,477)	(4,008)
Redemptions of subordinated debt	-	(297)
Dividends paid	(1,363)	(1,760)
Net cash flows provided by financing activities	2,478	319
Net increase / (decrease) in cash and cash equivalents	(156)	641
Cash and cash equivalents at beginning of the year	2,471	1,830
Cash and cash equivalents at end of the year	8	2,471

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 2014		8,213	-	(7)	3,575	11,781
Profit after income tax		-	-	-	1,783	1,783
Unrealised gains recognised directly in equity		-	-	12	-	12
Realised gains transferred to the income statement		-	-	(16)	-	(16)
Actuarial loss on defined benefit schemes		-	-	-	(32)	(32)
Income tax credit on items recognised directly in equity		-	-	1	9	10
Total comprehensive income for the year		-	-	(3)	1,760	1,757
Ordinary shares issued	28	675	-	-	-	675
Ordinary dividend paid	28	-	-	-	(1,745)	(1,745)
Preference dividend paid	28	-	-	-	(15)	(15)
As at 30 September 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	28	-	-	-	(1,350)	(1,350)
Preference dividend paid	28	-	-	-	(13)	(13)
As at 30 September 2016		8,888	-	62	3,760	12,710

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 profit-oriented 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 the income statement in the period in which they arise.

(b) Income recognition

(i) Interest income

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

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

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

(ii) Fee and commission income

Fees and commissions received that are integral to the effective interest rate of a financial asset are recognised using the effective interest method. For example, loan commitment fees, together with related direct costs, are deferred and recognised as an adjustment to the effective interest rate on a loan once drawn.

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

NOTES TO THE FINANCIAL STATEMENTS

recognised as income over the period the service is provided.

(c) Expense recognition

(i) Interest expense

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

(ii) Loan origination expenses

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

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

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

(d) Income tax

(i) Income tax expense

Income tax on earnings for the year comprises current and deferred tax and is based on the applicable tax law. It is recognised in the income statement as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity.

(ii) Current tax

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

(iii) Deferred tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences, other than those relating to taxable temporary differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would

follow from the manner in which the Banking Group, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

(iv) Offsetting

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

(e) Assets

Financial assets

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

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

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

Derivatives that are not effective accounting hedging instruments are carried at fair value through profit or loss.

In addition, certain financial assets and liabilities are designated and measured at fair value through profit or loss where any of the following applies:

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

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

(ii) Derivative financial instruments

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

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

Derivative financial instruments are recognised initially at fair value with gains or losses from subsequent measurement at

NOTES TO THE FINANCIAL STATEMENTS

fair value being recognised in the income statement. Valuation adjustments are integral in determining the fair value of derivatives. This includes a credit valuation adjustment (CVA) to reflect the credit worthiness of the counterparty and funding valuation adjustment (FVA) to account for the funding cost inherent in the portfolio.

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 the income statement 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 the income statement. Changes in the fair value of the hedged item attributable to the hedged risk are reflected in adjustments to the carrying value of the hedged item, which are also recognised in the income statement.

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

If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge

The Banking Group designates derivatives as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, a foreign exchange component of a firm commitment, or a highly probable forecast transaction. 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 the income statement in the periods when the hedged item will affect profit or loss. Any ineffective portion is recognised immediately in the income statement. 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 the income statement when the hedged item is recognised in the income statement.

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

Derivatives that do not qualify for hedge accounting

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

(iii) Available-for-sale assets

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

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 relating to the asset is transferred to the income statement.

(iv) Net loans and advances

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

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

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

Impairment of loans and advances

Loans and advances are reviewed at least at each reporting date for impairment.

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

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

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

The estimated impairment losses are measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present

NOTES TO THE FINANCIAL STATEMENTS

value. As this discount unwinds during the period between recognition of impairment and recovery of the cash flow, it is recognised in interest income.

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

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

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

Impairment losses recognised in previous periods are reversed in the income statement if the estimate of the loss subsequently decreases.

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

(v) Lease receivables

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

(vi) Repurchase agreements

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

Securities purchased under agreements to resell, where the Banking Group does not acquire the risks and rewards of ownership, are recorded as cash or net loans and advances if original maturity is greater than 90 days. The security is not included in the balance sheet. Interest income is accrued on the underlying loan amount.

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

(vii) Derecognition

The Banking Group enters into transactions where it transfers financial assets recognised on its balance sheet yet retains either all or a portion of the risks and rewards of the transferred assets. If all, or substantially all, the risks and

rewards are retained, the transferred assets are not derecognised from the balance sheet.

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

Non-financial assets

(viii) Goodwill

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

(f) Liabilities

Financial liabilities

(i) Deposits and other borrowings

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

(ii) Debt issuances and subordinated debt

Debt issuances and subordinated debt are accounted for in the same way as deposits and other borrowings.

(iii) Financial guarantee contracts

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

NOTES TO THE FINANCIAL STATEMENTS

estimates are determined based on experience of similar transactions and history of past losses.

(iv) Derecognition

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

(g) 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 changes in the fair value of available-for-sale financial assets, net of tax. These changes are transferred to the income statement (in other operating income) when the asset is derecognised or impaired.

Cash flow hedging reserve

This reserve includes the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the hedged transaction impacts the income statement.

(h) Presentation

(i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in 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 predominately in the banking industry within New Zealand. The Banking Group has very limited exposure to risk associated with operating in different economic environments or political conditions. On this basis no geographical segment information is provided.

(i) 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

The following standards were available for early adoption but have not been applied in these financial statements.

Standards and amendments effective for periods commencing after 1 January 2018

NZ IFRS 9 *Financial Instruments*

The External Reporting Board (XRB) issued the final version of NZ IFRS 9 *Financial Instruments* in September 2014. When operative, this standard will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. 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. NZ IFRS 9 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 9 and is not yet able to reasonably estimate the impact on its financial statements.

Standards and amendments effective for periods commencing after 1 January 2019

NZ IFRS 16 *Leases*

The XRB issued the final version of NZ IFRS 16 *Leases* in February 2016. NZ IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. NZ IFRS 16 substantially carries forward the lessor accounting requirements in NZ IAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. NZ IFRS 16 is not mandatorily effective for the Banking Group until 1 October 2019. The Banking Group is in the process of assessing the impact of 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 *Financial Instruments: Recognition and Measurement* does not specify a single method for assessing hedge effectiveness prospectively or retrospectively. The Banking Group adopts the hypothetical derivative approach to determine hedge effectiveness in line with current risk management strategies. Hedge ineffectiveness can arise for a number of reasons and whilst a hedge may pass the effectiveness tests above it may not be perfectly effective, leaving some volatility in the income statement.

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 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 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

NOTES TO THE FINANCIAL STATEMENTS

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 25 for details of goodwill held by the Banking Group.

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

Goodwill has been allocated for impairment purposes to the cash generating units at which the goodwill is monitored for internal reporting purposes. 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 30 June 2016 when the last valuation was prepared, a discount rate of 10.9% 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 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Interest income		
<i>Financial assets at fair value through profit or loss</i>		
Trading securities	453	488
<i>Financial assets not at fair value through profit or loss</i>		
Cash	63	94
Available-for-sale assets	64	37
Net loans and advances	5,814	6,277
Other	29	30
	5,970	6,438
Total interest income	6,423	6,926
Interest expense		
<i>Financial liabilities at fair value through profit or loss</i>		
Commercial paper	226	280
<i>Financial liabilities not at fair value through profit or loss</i>		
Deposits and other borrowings	2,310	2,772
Debt issuances	681	855
Subordinated debt	170	112
Other	34	32
	3,195	3,771
Total interest expense	3,421	4,051
Net Interest Income	3,002	2,875

4. NON INTEREST INCOME

	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Net trading gains		
Net gain on foreign exchange trading	203	201
Net gain on trading securities	115	384
Net loss on trading derivatives	(306)	(323)
Net trading gains	12	262
Net funds management and insurance income		
Net funds management income	187	165
Net insurance income	227	220
Total funds management and insurance income	414	385
Other operating income		
Lending and credit facility fee income	55	54
Other fee income	675	614
Total fee income	730	668
Direct fee expense	(308)	(264)
Net fee income	422	404
Net loss on financial liabilities designated at fair value	(5)	(1)
Net ineffectiveness on qualifying fair value hedges	1	(8)
Net gain / (loss) on derivatives not qualifying for hedge accounting	(29)	57
Net cash flow hedge gain / (loss) transferred to income statement	(7)	16
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	40	54
Total other operating income	421	523

NOTES TO THE FINANCIAL STATEMENTS

5. OPERATING EXPENSES

	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Personnel		
Salaries and related costs	811	803
Superannuation costs	30	31
Share-based payments expense	21	22
Other	32	20
Total personnel expenses	894	876
Premises		
Depreciation of premises and equipment	32	31
Leasing and rental costs	79	80
Other	41	42
Total premises expenses	152	153
Technology		
Depreciation and amortisation	111	49
Licenses and outsourced services	116	99
Other	58	51
Total technology expenses	285	199
Other		
Advertising and public relations	42	61
Amortisation of other intangible assets	5	5
Freight, stationery, postage and telephone	48	51
Professional Fees	45	37
Travel and entertainment expenses	28	38
Charges from Ultimate Parent Bank	64	64
Other	36	28
Total other expenses	268	284
Total operating expenses	1,599	1,512

Software capitalisation changes

During the year ended 30 September 2016, the Banking Group changed the application of its accounting policy for the capitalisation of expenditure on internally generated software assets effective from 1 October 2015. The change aligns the accounting policy for software assets with the rapidly changing technology landscape and the Banking Group's evolving digital strategy by increasing the threshold for capitalisation of software development costs and directly expensing more project related costs. The change does not affect the Banking 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 year ended 30 September 2016 was:

- Higher amortisation of NZ\$54 million relating to the accelerated amortisation of software assets where the original cost was below the revised threshold at 1 October 2015. This brings forward amortisation which otherwise would have been recognised in future periods.
- Higher operating expenses of NZ\$56 million relating to software development costs which otherwise would have been capitalised and amortised in future periods.

The change in capitalised software treatment has no impact on regulatory capital ratios.

NOTES TO THE FINANCIAL STATEMENTS

6. INCOME TAX

	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	2,105	2,464
Prima facie income tax at 28%	589	690
Imputed and non-assessable dividends	(1)	(3)
Change in tax provisions	(5)	-
Non assessable income and non deductible expenditure	(11)	(6)
Income tax over provided in prior years	(2)	-
Total income tax expense	570	681
Effective tax rate (%)	27.1%	27.6%
Amounts recognised in the income statement		
Current tax	582	607
Deferred tax	(12)	74
Total income tax expense recognised in the income statement	570	681
Imputation credits available	3,566	2,989

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.

	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Deferred tax assets / (liabilities) comprise the following temporary differences:		
Provision for credit impairment	174	171
Premises and equipment, software and intangibles	22	(8)
Provisions and accruals	75	60
Insurance policy assets	(159)	(146)
Financial instruments	(24)	4
Lease finance	(216)	(203)
Other deferred tax assets and liabilities (including tax provisions)	(17)	(2)
Net deferred tax liabilities¹	(145)	(124)

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

NOTES TO THE FINANCIAL STATEMENTS

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.

During the year ended 30 September 2016, Wealth was integrated with Retail, having been disclosed separately previously. Segment reporting has been updated to reflect this change and other minor changes to the Banking Group's structure. Comparative data has been adjusted to be consistent with the current year's segment definitions.

Retail

Retail provides products and services to 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, wholesale money market services and transaction banking.

Other

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

NOTES TO THE FINANCIAL STATEMENTS

Business segment analysis¹

	Retail	Commercial	Institutional	Other	Total
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
30/09/2016					
External interest income	3,456	2,202	756	9	6,423
External interest expense	(1,598)	(333)	(407)	(1,083)	(3,421)
Net intersegment interest	(198)	(981)	19	1,160	-
Net interest income	1,660	888	368	86	3,002
Other external operating income	677	16	113	41	847
Share of associates' profit	5	-	-	-	5
Operating income	2,342	904	481	127	3,854
Operating expenses	1,045	258	181	115	1,599
Profit before credit impairment and income tax	1,297	646	300	12	2,255
Credit impairment charge	58	72	20	-	150
Profit before income tax	1,239	574	280	12	2,105
Income tax expense	336	161	79	(6)	570
Profit after income tax	903	413	201	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	69,024	41,639	47,995	2,161	160,819
Total external liabilities	63,604	13,362	40,880	30,263	148,109
30/09/2015					
External interest income	3,474	2,441	1,002	9	6,926
External interest expense	(1,905)	(388)	(498)	(1,260)	(4,051)
Net intersegment interest	(1)	(1,149)	(200)	1,350	-
Net interest income	1,568	904	304	99	2,875
Other external operating income	657	17	360	136	1,170
Share of associates' profit	3	-	-	2	5
Operating income	2,228	921	664	237	4,050
Operating expenses	1,023	257	189	43	1,512
Profit before credit impairment and income tax	1,205	664	475	194	2,538
Credit impairment charge	56	-	18	-	74
Profit before income tax	1,149	664	457	194	2,464
Income tax expense	314	186	126	55	681
Profit after income tax	835	478	331	139	1,783
Other information					
Depreciation and amortisation	20	-	-	65	85
Goodwill	1,109	1,052	1,072	-	3,233
Other intangible assets	138	-	-	121	259
Investment in associates	4	-	-	-	4
Total external assets	61,366	40,561	43,903	1,697	147,527
Total external liabilities	59,933	12,390	38,963	23,788	135,074

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

NOTES TO THE FINANCIAL STATEMENTS

8. NOTES TO THE CASH FLOW STATEMENT

	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Reconciliation of profit after income tax to net cash flows provided by / (used in) operating activities		
Profit after income tax	1,535	1,783
Non-cash items:		
Depreciation and amortisation	148	85
Provision for credit impairment	150	74
Deferred fee revenue and expenses	(7)	(3)
Amortisation of capitalised brokerage / mortgage origination fees	152	123
Amortisation of premiums and discounts	70	60
Fair value gains and losses	31	(263)
Loss on disposal and impairment of premises and equipment and intangibles	4	1
Deferrals or accruals of past or future operating cash receipts or payments:		
Change in net operating assets less liabilities	(4,434)	(1,498)
Change in interest receivable	29	-
Change in interest payable	(43)	(9)
Change in accrued expenses	(71)	13
Change in provisions	15	(13)
Change in life insurance policy assets	(57)	(79)
Change in other receivables and payables	8	2
Change in net income tax assets / liabilities	(78)	94
Dividends from associates in excess of share of profits	(3)	84
Items classified as investing activities:		
Proceeds from sale of insurance policies	(23)	-
Net cash flows provided by / (used in) operating activities	(2,574)	454

	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Reconciliation of cash and cash equivalents to the balance sheet		
Cash	2,274	2,380
Amounts included in settlement balances receivable / (payable):		
Nostro accounts	45	108
Overdrawn nostro accounts	(4)	(17)
Total cash and cash equivalents	2,315	2,471

NOTES TO THE FINANCIAL STATEMENTS

9. CASH

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Coins, notes and cash at bank	193	195
Securities purchased under agreements to resell	229	338
Balances with central banks	1,852	1,847
Total cash	2,274	2,380

10. TRADING SECURITIES

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Government securities	5,953	6,555
Corporate and financial institution securities	6,026	5,584
Total trading securities	11,979	12,139

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

	30/09/2016			30/09/2015		
	Notional principal amount NZ\$m	Fair values Assets NZ\$m	Liabilities NZ\$m	Notional principal amount NZ\$m	Fair values Assets NZ\$m	Liabilities NZ\$m
Derivatives held for trading						
Foreign exchange derivatives						
Spot and forward contracts	63,895	650	785	76,319	1,625	1,339
Swap agreements	141,306	1,718	3,157	123,744	2,886	3,559
Options purchased	2,379	50	2	1,870	79	3
Options sold	2,248	7	77	1,820	2	46
	209,828	2,425	4,021	203,753	4,592	4,947
Interest rate derivatives						
Forward rate agreements	41,507	1	5	24,743	2	12
Swap agreements	1,178,795	17,910	17,084	1,140,894	12,421	11,479
Futures contracts	78,988	3	46	45,407	12	19
Options purchased	2,366	6	-	1,218	5	-
Options sold	1,603	1	2	827	1	2
	1,303,259	17,921	17,137	1,213,089	12,441	11,512
Commodity derivatives	460	33	32	235	29	29
Total derivatives held for trading	1,513,547	20,379	21,190	1,417,077	17,062	16,488
Derivatives in hedging relationships						
Fair value hedges						
Interest rate swap agreements	34,639	238	386	30,230	230	375
	34,639	238	386	30,230	230	375
Cash flow hedges						
Interest rate swap agreements	18,985	493	380	21,715	366	367
Total derivatives in hedging relationships	53,624	731	766	51,945	596	742
Total derivative financial instruments	1,567,171	21,110	21,956	1,469,022	17,658	17,230

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	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Gain / (loss) arising from fair value hedges:		
- hedged item	(45)	143
- hedging instrument	46	(151)
Net ineffectiveness on qualifying fair value hedges	1	(8)

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	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Deferred gain / (loss) attributable to hedges of:		
Variable rate loan assets	296	187
Short term re-issuances of fixed rate customer and wholesale deposit liabilities	(234)	(197)
Total cash flow hedging reserve	62	(10)

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 (2015: ten years).

NOTES TO THE FINANCIAL STATEMENTS

12. AVAILABLE-FOR-SALE ASSETS

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Government securities	1,195	869
Corporate and financial institution securities	1,663	557
Equity and other securities	1	2
Total available-for-sale assets	2,859	1,428

13. NET LOANS AND ADVANCES

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
	Note	
Overdrafts ¹	1,133	1,162
Credit card outstandings	1,663	1,688
Term loans - housing ¹	67,298	59,904
Term loans - non-housing	43,651	42,880
Lease receivables	226	236
Hire purchase	1,098	946
Total gross loans and advances	115,069	106,816
Less: Provision for credit impairment	14	(622)
Less: Unearned income		(211)
Add: Capitalised brokerage/mortgage origination fees		360
Add: Customer liability for acceptances		27
Total net loans and advances	114,623	106,357

¹ Comparative amounts have been changed to reclassify revolving credit facilities secured by residential property provided to corporate customers from Overdrafts to Term loans – housing (2015: NZ\$476 million).

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ\$6,020 million as at 30 September 2016 (2015: NZ\$8,011 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)

	30/09/2016				30/09/2015			
	Retail mortgages	Other retail exposures	Non-retail exposures	Total	Retail mortgages	Other retail exposures	Non-retail exposures	Total
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
New and increased provisions	16	110	111	237	31	107	76	214
Write-backs	(28)	(18)	(30)	(76)	(39)	(19)	(59)	(117)
Recoveries of amounts written off previously	-	(22)	(3)	(25)	(1)	(20)	(8)	(29)
Individual credit impairment charge / (release)	(12)	70	78	136	(9)	68	9	68
Collective credit impairment charge / (release)	1	3	10	14	(1)	9	(2)	6
Credit impairment charge / (release)	(11)	73	88	150	(10)	77	7	74

Movement in provision for credit impairment

	30/09/2016				30/09/2015			
	Retail mortgages	Other retail exposures	Non-retail exposures	Total	Retail mortgages	Other retail exposures	Non-retail exposures	Total
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Collective provision								
Balance at beginning of the year	77	127	253	457	78	118	255	451
Charge / (release) to income statement	1	3	10	14	(1)	9	(2)	6
Balance at end of the year	78	130	263	471	77	127	253	457
Individual provision								
Balance at beginning of the year	54	9	91	154	72	15	128	215
New and increased provisions net of write-backs	(12)	92	81	161	(8)	88	17	97
Bad debts written off	(2)	(95)	(55)	(152)	(4)	(94)	(54)	(152)
Discount unwind reversal / (discount unwind) ¹	(3)	-	(9)	(12)	(6)	-	-	(6)
Balance at end of the year	37	6	108	151	54	9	91	154
Total provision for credit impairment	115	136	371	622	131	136	344	611

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

	30/09/2016				30/09/2015			
	Retail mortgages	Other retail exposures	Non-retail exposures	Total	Retail mortgages	Other retail exposures	Non-retail exposures	Total
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Balance at beginning of the year	97	32	253	382	189	35	410	634
Transfers from productive	64	129	395	588	89	126	155	370
Transfers to productive	(31)	(8)	(7)	(46)	(69)	(7)	(46)	(122)
Assets realised or loans repaid	(71)	(31)	(244)	(346)	(108)	(28)	(212)	(348)
Write offs	(2)	(95)	(55)	(152)	(4)	(94)	(54)	(152)
Total impaired assets	57	27	342	426	97	32	253	382
Other assets under administration	9	2	-	11	6	1	-	7
Undrawn facilities with impaired customers	-	1	57	58	1	-	14	15

NOTES TO THE FINANCIAL STATEMENTS

15. DEPOSITS AND OTHER BORROWINGS

	Note	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Term deposits		39,665	34,982
On demand and short term deposits		42,323	41,436
Deposits not bearing interest		7,780	6,716
UDC secured investments	21	1,592	1,736
Total customer deposits		91,360	84,870
Certificates of deposit		2,237	745
Commercial paper		5,364	4,964
Securities sold under repurchase agreements		76	47
Deposits from other members of ANZ New Zealand	32	29	52
Total deposits and other borrowings		99,066	90,678

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. DEBT ISSUANCES

	Note	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Domestic bonds		3,975	3,525
U.S. medium term notes ¹		6,883	6,831
Euro medium term notes ¹		2,792	3,598
Covered bonds ¹	21, 31	6,218	5,335
Index linked notes		-	35
Total debt issuances		19,868	19,324
Fair value hedge adjustment		192	175
Less debt issuances held by the Bank		(46)	(96)
Total debt issuances		20,014	19,403

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

Debt issuances, other than covered bonds, are unsecured and rank equally with other unsecured liabilities of the Banking Group.

Domestic bonds includes two series of bonds quoted on the NZX Debt Market which mature on 2 September 2021 and 1 September 2023 respectively (the Bonds). NZX Regulation has granted the Bank a waiver in respect of the Bonds from the requirement in Main Board/Debt Market Listing Rule 5.2.3 (as modified by NZX's ruling on Rule 5.2.3 issued on 29 September 2015) to enable the Bank to apply for quotation of the Bonds on the NZX Debt Market even though the Bonds may not initially be held by at least 100 members of the public holding at least 25% of the Bonds issued. The waiver has been granted for a period of 6 months from the relevant dates of quotation of the Bonds on the NZX Debt Market. The effect of the waiver from NZX Listing Rule 5.2.3 is that initially the Bonds may not be widely held and there may be reduced liquidity in the Bonds. To the extent that there is a material reduction in the spread of the Bonds, the Bank will notify NZX accordingly.

NOTES TO THE FINANCIAL STATEMENTS

17. SUBORDINATED DEBT

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
ANZ Capital Notes¹		
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN) ²	496	494
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	-
Perpetual subordinated debt		
NZD 835m perpetual subordinated bond ^{2,3}	835	835
AUD 10m perpetual subordinated floating rate loan	10	11
Total subordinated debt	3,282	2,343

¹ These instruments qualify as additional tier 1 capital.

² These instruments are quoted on the NZX Debt Market.

³ These instruments qualify as tier 2 capital under RBNZ's Basel III transitional rules, subject to the RBNZ's Basel III transition adjustment. Refer to note 29 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 2016, ANZ NZ CN carried a BBB- 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.

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

NOTES TO THE FINANCIAL STATEMENTS

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 2016, this bond carried a BBB+ rating by Standard and Poor's and an A3 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.

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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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

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.

Concentrations of credit risk

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

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

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

- 1 Government and local authority includes exposures to government administration and defence, education and health and community services.
- 2 Other includes exposures to electricity, gas and water, communications and personal services.
- 3 Net loans and advances exclude 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.

NOTES TO THE FINANCIAL STATEMENTS

	Cash, settlements receivable and collateral paid	Trading securities and available-for- sale assets	Derivative financial instruments	Net loans and advances ³	Other financial assets	Credit related commitments ⁴	Total
30/09/2016	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Industry							
Agriculture	-	-	24	18,510	64	1,189	19,787
Forestry, fishing and mining	-	-	45	776	3	809	1,633
Business and property services	-	-	79	11,292	39	2,865	14,275
Construction	-	-	17	1,492	5	853	2,367
Entertainment, leisure and tourism	-	-	31	1,347	5	361	1,744
Finance and insurance	2,935	7,728	18,692	941	282	1,378	31,956
Government and local authority ¹	1,852	7,030	1,075	1,245	4	1,167	12,373
Manufacturing	-	12	185	3,465	12	1,977	5,651
Personal lending	-	-	-	68,893	238	14,125	83,256
Retail trade	-	-	64	1,966	7	933	2,970
Transport and storage	-	5	91	1,611	6	871	2,584
Wholesale trade	-	-	23	1,617	6	1,561	3,207
Other ²	-	63	784	1,941	7	1,668	4,463
	4,787	14,838	21,110	115,096	678	29,757	186,266
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
Geography							
New Zealand	2,931	9,681	3,628	112,152	669	29,470	158,531
Overseas	1,856	5,157	17,482	2,575	9	183	27,262
Total financial assets	4,787	14,838	21,110	114,727	678	29,653	185,793
30/09/2015							
Industry							
Agriculture	-	-	23	18,383	73	1,238	19,717
Forestry, fishing and mining	-	-	44	931	4	1,035	2,014
Business and property services	-	1	23	10,816	43	2,798	13,681
Construction	-	-	12	1,342	5	811	2,170
Entertainment, leisure and tourism	-	-	47	1,067	4	268	1,386
Finance and insurance	2,576	6,956	15,140	1,245	335	1,317	27,569
Government and local authority ¹	1,847	6,475	1,338	1,156	5	1,408	12,229
Manufacturing	-	31	417	3,470	14	1,993	5,925
Personal lending	-	-	-	61,374	245	13,798	75,417
Retail trade	-	-	18	2,008	8	1,012	3,046
Transport and storage	-	6	60	1,638	7	759	2,470
Wholesale trade	-	-	17	1,468	6	1,248	2,739
Other ²	-	98	519	1,970	8	1,672	4,267
	4,423	13,567	17,658	106,868	757	29,357	172,630
Less: Provision for credit impairment	-	-	-	(514)	-	(97)	(611)
Less: Unearned income	-	-	-	(214)	-	-	(214)
Add: Capitalised brokerage / mortgage origination fees	-	-	-	314	-	-	314
Total financial assets	4,423	13,567	17,658	106,454	757	29,260	172,119
Geography							
New Zealand	2,527	8,673	3,671	104,178	748	29,077	148,874
Overseas	1,896	4,894	13,987	2,276	9	183	23,245
Total financial assets	4,423	13,567	17,658	106,454	757	29,260	172,119

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

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

³ 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. The comparative amount for undrawn facilities has been reduced by \$5,518 million following a review of the composition of commitments.

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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 most common types of collateral include:

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

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

	30/09/2016			30/09/2015		
	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	2,081	229	1,852	2,185	338	1,847
Settlement balances receivable	396	265	131	309	134	175
Collateral paid	2,310	-	2,310	1,929	-	1,929
Trading securities	11,979	-	11,979	12,139	-	12,139
Derivative financial instruments	21,110	529	20,581	17,658	1,687	15,971
Available-for-sale assets	2,859	-	2,859	1,428	-	1,428
Net loans and advances	114,727	104,399	10,328	106,454	95,560	10,894
Other financial assets	678	361	317	757	382	375
Credit related commitments	29,653	15,193	14,460	29,260	14,568	14,692
Total exposure to credit risk	185,793	120,976	64,817	172,119	112,669	59,450

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.

	30/09/2016			Total NZ\$m	30/09/2015			Total NZ\$m
	Retail mortgages	Other retail exposures	Non-retail exposures		Retail mortgages	Other retail exposures	Non-retail exposures	
	NZ\$m	NZ\$m	NZ\$m		NZ\$m	NZ\$m	NZ\$m	
Strong risk rating	57,203	1,263	20,248	78,714	49,020	1,285	23,051	73,356
Satisfactory risk rating	6,335	2,997	22,309	31,641	6,754	3,021	19,192	28,967
Substandard but not past due or impaired	325	539	1,928	2,792	575	382	1,389	2,346
Total neither past due nor impaired	63,863	4,799	44,485	113,147	56,349	4,688	43,632	104,669
Past due but not impaired:								
1 to 5 days	337	125	350	812	297	110	454	861
6 to 29 days	131	73	42	246	188	92	99	379
1 to 29 days	468	198	392	1,058	485	202	553	1,240
30 to 59 days	109	32	62	203	101	37	88	226
60 to 89 days	82	17	6	105	73	18	11	102
90 days and over	81	26	23	130	103	32	62	197
Total past due but not impaired	740	273	483	1,496	762	289	714	1,765
Total impaired assets	57	27	342	426	97	32	253	382
Gross loans and advances	64,660	5,099	45,310	115,069	57,208	5,009	44,599	106,816

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 benchmark.

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.

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.

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Traded market risks

	30/09/2016				30/09/2015			
	Value at risk at 99% confidence				Value at risk at 99% confidence			
	Period end	High for	Low for	Average for	Period end	High for	Low for	Average for
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Foreign exchange risk	0.2	0.9	0.1	0.4	0.6	1.1	-	0.3
Interest rate risk	2.1	4.9	1.3	2.6	2.4	5.1	1.0	2.1
Credit spread risk	0.5	0.7	0.3	0.5	0.7	0.7	0.2	0.4
Diversification benefit	(0.7)	n/a	n/a	(1.0)	(2.0)	n/a	n/a	(0.7)
Total VaR	2.1	4.4	1.3	2.5	1.7	4.9	1.0	2.1

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	Low for	Average for
	NZ\$m	year	year	year
		NZ\$m	NZ\$m	NZ\$m
30/09/2016				
Value at risk at 99% confidence	9.7	10.3	7.7	8.9
30/09/2015				
Value at risk at 99% confidence	7.4	12.4	7.3	10.1

NOTES TO THE FINANCIAL STATEMENTS

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.

	30/09/2016	30/09/2015
Impact of 1% rate shock		
Period end	0.4%	1.7%
Maximum exposure	1.6%	2.3%
Minimum exposure	-0.2%	0.2%
Average exposure (in absolute terms)	0.7%	1.1%

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.

30/09/2016	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	11,986	10,120	2,460	1,302	7,782
Derivative financial instruments	21,956	-	-	-	-	-	21,956
Debt issuances	20,014	4,342	-	1,087	2,843	11,742	-
Subordinated debt	3,282	938	1,013	-	835	496	-
Other financial liabilities	639	53	-	-	9	124	453
Total financial liabilities	147,257	71,944	12,999	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	14,251	(17,640)	13,501	2,878	5,538	(9,556)

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30/09/2015	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	2,380	2,185	-	-	-	-	195
Settlement balances receivable	309	141	-	-	-	-	168
Collateral paid	1,929	1,929	-	-	-	-	-
Trading securities	12,139	1,280	731	789	863	8,476	-
Derivative financial instruments	17,658	-	-	-	-	-	17,658
Available-for-sale assets	1,428	1,178	-	-	-	248	2
Net loans and advances	106,357	57,459	6,373	15,238	19,900	7,844	(457)
Other financial assets	757	-	113	33	-	5	606
Total financial assets	142,957	64,172	7,217	16,060	20,763	16,573	18,172
Liabilities							
Settlement balances payable	1,844	871	-	-	-	-	973
Collateral received	1,687	1,687	-	-	-	-	-
Deposits and other borrowings	90,678	61,191	9,586	9,507	2,103	1,575	6,716
Derivative financial instruments	17,230	-	-	-	-	-	17,230
Debt issuances	19,403	6,001	1,587	-	2,498	9,317	-
Subordinated debt	2,343	-	1,014	-	-	1,329	-
Payables and other liabilities	962	101	-	-	6	256	599
Total financial liabilities	134,147	69,851	12,187	9,507	4,607	12,477	25,518
Hedging instruments							
Interest sensitivity gap	-	34,623	(20,949)	(1,214)	(11,354)	(1,106)	-
Interest sensitivity gap	8,810	28,944	(25,919)	5,339	4,802	2,990	(7,346)

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.

	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Net open position		
Australian dollar	26	(1)
Euro	6	(13)
Japanese yen	(3)	(4)
US dollar	(5)	34
Other	1	6
Total net open position	25	22

NOTES TO THE FINANCIAL STATEMENTS

Liquidity risk

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

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

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

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

Management of liquidity and funding risks are overseen by ALCO.

Supervision and Regulation

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

Scenario Modelling

A key component of the Banking Group's liquidity management framework is scenario modelling. Liquidity is assessed under different scenarios, including normal conditions, name crisis and funding market disruption.

Normal conditions: reflects the normal behaviour of cash flows in the ordinary course of business. The Banking Group must manage its short and long term wholesale funding to ensure there are no undue maturity concentrations within the wholesale funding profile over the following three months. Limits are applied within the three month period based on a combination of the Banking Group's demonstrated and assumed wholesale funding capacity.

Name-crisis: refers to a potential severe name-specific liquidity crisis scenario which models the behaviour of cash flows where there is a problem (real or perceived) which may include, but is not limited to, operational issues, doubts about the solvency of the Banking Group, or adverse rating changes. Under this scenario the Banking Group may have significant difficulty rolling over or replacing funding. Under the liquidity policy the Banking Group must have sufficient high quality liquid assets to meet its liquidity needs for the following 30 calendar days under this scenario.

Funding market disruption: The global financial crisis highlighted the importance of differentiating between a name specific crisis and the different behaviour that domestic and offshore funding markets can exhibit during market disruption events. Under the liquidity policy, the Banking Group must be able to meet its wholesale maturities under a scenario of protracted stress in domestic and offshore wholesale funding markets over a period of six months.

As of 30 September 2016 the Banking Group was in compliance with the above scenarios.

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.

NOTES TO THE FINANCIAL STATEMENTS

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.

Funding Composition

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

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

	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Customer deposits¹		
New Zealand	81,342	75,408
Overseas	10,018	9,462
Total customer deposits	91,360	84,870
Wholesale funding		
Debt issuances	20,014	19,403
Subordinated debt	3,282	2,343
Certificates of deposit	2,237	745
Commercial paper	5,364	4,964
Other borrowings	105	99
Total wholesale funding	31,002	27,554
Total funding	122,362	112,424
Concentrations of funding by industry		
Agriculture	2,989	2,871
Forestry, fishing and mining	618	656
Business and property services	6,751	6,304
Construction	1,588	1,283
Entertainment, leisure and tourism	1,010	1,021
Finance and insurance	40,383	35,331
Government and local authority	2,958	2,910
Manufacturing	2,004	1,913
Households	59,275	55,239
Retail trade	1,075	1,064
Transport and storage	653	745
Wholesale trade	1,274	1,312
Other ²	1,784	1,775
Total funding	122,362	112,424
Concentrations of funding by geography		
New Zealand	90,422	81,635
Australia	1,017	1,016
United States	12,215	12,332
Europe	11,448	10,388
Other countries	7,260	7,053
Total funding	122,362	112,424

¹ Represents term deposits, other deposits bearing interest, deposits not bearing interest and UDC secured investments.

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

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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 its internal and regulatory liquidity scenario metrics.

Total liquidity portfolio

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Cash and balances with central banks	2,068	2,069
Certificates of deposit	1,124	468
Government, local body stock and bonds	6,117	5,063
Government treasury bills	811	1,155
Reserve Bank bills	100	799
Other bonds	6,483	5,930
Total liquidity portfolio	16,703	15,484

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 2016 the Banking Group would be eligible to enter into repurchase transactions with a value of NZ\$13,515 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\$6,793 million at 30 September 2016.

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.

30/09/2016	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	-	-	-	-
Debt issuances 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. Refer to note 17 for subordinated debt call dates.

NOTES TO THE FINANCIAL STATEMENTS

30/09/2015	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	2,380	2,041	339	-	-	-	-
Settlement balances receivable	309	140	169	-	-	-	-
Collateral paid	1,929	-	1,929	-	-	-	-
Trading securities	13,180	-	516	1,929	9,710	1,025	-
Derivative financial assets (trading)	16,432	-	16,432	-	-	-	-
Available-for-sale assets	1,454	-	1,078	11	363	-	2
Net loans and advances	141,418	252	15,399	16,397	49,731	59,639	-
Other financial assets	331	-	180	146	5	-	-
Total financial assets	177,433	2,433	36,042	18,483	59,809	60,664	2
Financial liabilities							
Settlement balances payable	1,803	1,188	615	-	-	-	-
Collateral received	1,687	-	1,687	-	-	-	-
Deposits and other borrowings	92,249	48,429	18,784	20,926	4,110	-	-
Derivative financial liabilities (trading)	14,700	-	14,700	-	-	-	-
Debt issuances ¹	20,315	-	2,217	3,207	13,498	1,393	-
Subordinated debt ¹	2,461	-	11	33	1,414	1,003	-
Other financial liabilities	547	-	176	9	107	255	-
Total financial liabilities	133,762	49,617	38,190	24,175	19,129	2,651	-
Derivative financial instruments used for balance sheet management							
- gross inflows	16,190	-	1,884	2,881	9,480	1,945	-
- gross outflows	(17,123)	-	(1,909)	(3,049)	(10,166)	(1,999)	-
Net financial assets / (liabilities) after balance sheet management	42,738	(47,184)	(2,173)	(5,860)	39,994	57,959	2

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	514	59	455
Credit related commitments	26,903	26,903	-
Contingent liabilities	2,454	2,454	-
Total	29,871	29,416	455

¹ Any callable wholesale debt instruments have been included at their next call date. Prior period interest cash flows have been revised to improve comparability.

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				
30/09/2016	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
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
Debt issuances 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
30/09/2015							
Cash	2,380	-	-	-	-	2,380	2,380
Settlement balances receivable	309	-	-	-	-	309	309
Collateral paid	1,929	-	-	-	-	1,929	1,929
Trading securities	-	-	12,139	-	-	12,139	12,139
Derivative financial instruments ¹	-	-	17,062	596	-	17,658	17,658
Available-for-sale assets	-	-	-	-	1,428	1,428	1,428
Net loans and advances ²	106,357	-	-	-	-	106,357	106,854
Other financial assets	606	151	-	-	-	757	757
Total financial assets	111,581	151	29,201	596	1,428	142,957	143,454
Settlement balances payable	1,844	-	-	-	-	1,844	1,844
Collateral received	1,687	-	-	-	-	1,687	1,687
Deposits and other borrowings	85,714	4,964	-	-	-	90,678	90,832
Derivative financial instruments ¹	-	-	16,488	742	-	17,230	17,230
Debt issuances ²	19,403	-	-	-	-	19,403	19,516
Subordinated debt	2,343	-	-	-	-	2,343	2,288
Other financial liabilities	653	-	309	-	-	962	962
Total financial liabilities	111,644	4,964	16,797	742	-	134,147	134,359

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 debt issuances. The resulting fair value adjustment means that the carrying value differs from the amortised cost.

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 debt issuances, 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

	30/09/2016				30/09/2015			
	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	11,967	12	-	11,979	11,880	259	-	12,139
Derivative financial instruments	3	21,100	7	21,110	12	17,640	6	17,658
Available-for-sale assets	1,671	1,187	1	2,859	900	526	2	1,428
Investments backing insurance contract liabilities	5	114	-	119	2	149	-	151
Total	13,646	22,413	8	36,067	12,794	18,574	8	31,376
Financial liabilities								
Deposits and other borrowings	-	5,364	-	5,364	-	4,964	-	4,964
Derivative financial instruments	46	21,908	2	21,956	19	17,209	2	17,230
Other financial liabilities	157	-	-	157	309	-	-	309
Total	203	27,272	2	27,477	328	22,173	2	22,503

Valuation hierarchy for financial assets and financial liabilities not measured at fair value¹

	30/09/2016				30/09/2015			
	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	-	111,513	3,378	114,891	-	102,945	3,909	106,854
Financial liabilities								
Deposits and other borrowings	-	93,805	-	93,805	-	85,868	-	85,868
Debt issuances	1,629	18,519	-	20,148	638	18,878	-	19,516
Subordinated debt	1,361	1,990	-	3,351	1,363	925	-	2,288
Total	2,990	114,314	-	117,304	2,001	105,671	-	107,672

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.

	30/09/2016			30/09/2015		
	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	107	12	119	146	5	151
Available-for-sale assets	1,915	944	2,859	1,071	357	1,428
Net loans and advances	24,976	89,647	114,623	26,967	79,390	106,357
Other assets	598	103	701	657	83	740
Liabilities						
Deposits and other borrowings	95,301	3,765	99,066	87,000	3,678	90,678
Payables and other liabilities	877	242	1,119	1,272	215	1,487
Provisions	108	98	206	95	96	191
Debt issuances	4,009	16,005	20,014	5,237	14,166	19,403

NOTES TO THE FINANCIAL STATEMENTS

21. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

Assets charged as security for liabilities¹

The carrying amounts of assets pledged as security are as follows:

	Carrying Amount		Related Liability	
	30/09/2016 NZ\$m	30/09/2015 NZ\$m	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Securities sold under agreements to repurchase	77	47	76	47
Residential mortgages pledged as security for covered bonds	10,265	7,547	6,218	5,335
Assets pledged as collateral for UDC secured investments	2,665	2,441	1,592	1,736

UDC Secured Investments are secured by a security interest granted under the Trust Deed over all of UDC Finance Limited's (UDC) 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 moneys payable by UDC under the Trust Deed.

Collateral accepted as security for assets¹

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:

	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Collateral received on standard reverse repurchase agreements		
Fair value of assets which can be sold	231	339
Fair value of assets sold or repledged	141	269

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 NZ\$m	Related amounts not offset ¹		Net amounts NZ\$m
		Financial instruments NZ\$m	Cash collateral NZ\$m	
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
30/09/2015				
Financial assets				
Collateral paid	1,139	-	(1,112)	27
Trading securities ²	47	(47)	-	-
Derivative financial instruments	7,007	(6,201)	(781)	25
Financial liabilities				
Collateral received	960	-	(781)	179
Securities sold under agreements to repurchase ³	47	(47)	-	-
Derivative financial instruments	7,349	(6,201)	(1,112)	36

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 respect 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

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Contract amount of:		
Credit related commitments - facilities provided		
Undrawn facilities ¹	27,296	26,903
Guarantees and contingent liabilities		
Guarantees and letters of credit	850	1,002
Performance related contingencies	1,611	1,452
Total guarantees and contingent liabilities	2,461	2,454
Total Credit Related Commitments, Guarantees and Contingent Liabilities	29,757	29,357

¹ The comparative amount for undrawn facilities has been reduced by NZ\$5,518 million following a review of the composition of commitments.

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

In June 2013, litigation funder Litigation Lending Services (NZ) Limited filed a representative action against the Bank regarding certain fees charged to New Zealand customers. The representative action has been settled with the Bank making a contribution to the claimants' costs. The Bank has not admitted liability and all claims against it have been formally discontinued.

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.

NOTES TO THE FINANCIAL STATEMENTS

24. OTHER ASSETS

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Accrued interest and prepaid discounts	397	426
Accrued commission	22	22
Share-based payments asset	103	83
Prepaid expenses	19	24
Other assets	160	185
Total other assets	701	740

25. GOODWILL AND OTHER INTANGIBLE ASSETS

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Goodwill	3,233	3,233
Software	76	139
Other intangibles	115	120
Total goodwill and other intangible assets	3,424	3,492

26. PAYABLES AND OTHER LIABILITIES

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Creditors	60	121
Accrued interest and unearned discounts	436	479
Defined benefits plan obligations	28	43
Accrued charges	169	240
Securities short sold (classified as held for trading)	157	309
Liability for acceptances	27	52
Share-based payments liability	86	65
Life insurance contract liabilities - reinsurance	128	107
Other liabilities	28	71
Total payables and other liabilities	1,119	1,487

27. PROVISIONS

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Employee annual and long service leave	126	129
Other ¹	80	62
Total provisions	206	191

¹ Includes provisions for surplus leased space, make-good of leased premises, seismic obligations, and restructuring costs.

NOTES TO THE FINANCIAL STATEMENTS

28. SHARE CAPITAL

	Number of issued shares		NZ\$ millions	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
Ordinary shares				
At beginning of the year	3,345,755,498	2,670,755,498	8,588	7,913
Issued during the year	-	675,000,000	-	675
Ordinary shares at end of the year	3,345,755,498	3,345,755,498	8,588	8,588
Preference shares				
At beginning of the year	300,000,000	300,000,000	300	300
Preference shares at end of the year	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 (2015: 650,712 shares uncalled).

During the year ended 30 September 2016 the Bank paid ordinary dividends of NZ\$1,350 million (2015: NZ\$1,745 million) to the Immediate Parent Company (equivalent to NZ\$0.40 per share) (2015: equivalent to NZ\$0.65 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, beginning on 1 March 2014.

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

29. CAPITAL ADEQUACY

Capital management policies

The Banking Group's core capital objectives are to:

- Protect the interests of depositors, creditors and shareholders
- Ensure the safety and soundness of the Banking Group's capital position
- 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 comparative periods.

Basel III capital ratios	RBNZ minimum ratios	Banking Group		Bank	
		30/09/2016	30/09/2015	30/09/2016	30/09/2015
Unaudited					
Common equity tier 1 capital	4.5%	10.0%	10.5%	8.9%	9.4%
Tier 1 capital	6.0%	13.2%	12.7%	12.2%	11.8%
Total capital	8.0%	13.7%	13.6%	12.8%	12.7%
Buffer ratio	2.5%	5.5%	5.6%		

NOTES TO THE FINANCIAL STATEMENTS

Capital of the Banking Group

	Note	Unaudited 30/09/2016 NZ\$m
Tier 1 capital		
<i>Common equity tier 1 capital</i>		
Paid up ordinary shares issued by the Bank	28	8,588
Retained earnings (net of appropriations)		3,760
Accumulated other comprehensive income and other disclosed reserves		62
<i>Less deductions from common equity tier 1 capital</i>		
Goodwill and intangible assets, net of associated deferred tax liabilities		(3,412)
Cash flow hedge reserve		(62)
Expected losses to the extent greater than total eligible allowances for impairment		(211)
Common equity tier 1 capital		8,725
<i>Additional tier 1 capital</i>		
Preference shares	28	300
ANZ Capital Notes	17	2,441
Capital attributable to The Bonus Bonds Trust investors		39
Additional tier 1 capital		2,780
Total tier 1 capital		11,505
Tier 2 capital		
<i>Qualifying tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements</i>		
NZD 835,000,000 perpetual subordinated bond	17	835
<i>Less deductions from tier 2 capital</i>		
Basel III transition adjustment ¹		(367)
Total tier 2 capital		468
Total capital		11,973

Capital requirements of the Banking Group

	Exposure at default NZ\$m	Risk weighted exposure or implied risk weighted exposure ² NZ\$m	Total capital requirement NZ\$m
Unaudited 30/09/2016			
Exposures subject to internal ratings based approach	157,545	60,363	4,829
Specialised lending exposures subject to slotting approach	11,017	10,049	804
Exposures subject to standardised approach	2,100	376	30
Equity exposures	7	31	2
Other exposures	3,636	1,687	135
Total credit risk	174,305	72,506	5,800
Operational risk	n/a	6,052	484
Market risk	n/a	8,561	685
Total	174,305	87,119	6,969

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 40% from 1 January 2016; 20% 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 supplied 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

	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
Unaudited 30/09/2016						
On-balance sheet exposures						
Corporate	35,808	35,820	36	59	22,396	1,791
Sovereign	11,237	11,027	5	1	112	9
Bank	8,094	6,570	58	18	1,268	103
Retail mortgages	64,660	64,884	20	22	15,374	1,230
Other retail	5,049	5,149	76	96	5,260	420
Total on-balance sheet exposures	124,848	123,450	27	34	44,410	3,553
Off-balance sheet exposures						
Corporate	12,387	10,369	50	50	5,472	438
Sovereign	275	160	5	1	1	-
Bank	1,379	1,123	51	18	216	17
Retail mortgages	8,272	8,662	17	15	1,415	113
Other retail	5,563	5,611	79	56	3,319	266
Total off-balance sheet exposures	27,876	25,925	45	38	10,423	834
Market related contracts						
Corporate	105,432	3,254	60	88	3,019	242
Sovereign	12,430	463	5	41	201	16
Bank	841,969	4,453	59	49	2,310	184
Total market related contracts	959,831	8,170	56	64	5,530	442
Total credit risk exposures subject to the IRB approach	1,112,555	157,545	32	36	60,363	4,829

NOTES TO THE FINANCIAL STATEMENTS

IRB exposures by customer credit rating

Unaudited 30/09/2016	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	6,300	63	46	3,090	247
3 - 4	0.32	22,104	37	42	9,811	785
5	1.03	13,050	36	64	8,880	710
6	2.26	5,688	37	84	5,071	406
7 - 8	8.49	1,846	43	158	3,100	248
Default	100.00	455	43	194	935	75
Total corporate exposures	1.92	49,443	40	59	30,887	2,471
Sovereign						
0	0.01	11,501	5	3	311	25
1 - 8	0.03	149	5	2	3	-
Total sovereign exposures	0.01	11,650	5	3	314	25
Bank						
0	0.03	57	65	24	14	1
1	0.03	10,859	58	27	3,135	251
2 - 4	0.09	1,223	59	49	636	51
5 - 8	1.70	7	65	126	9	1
Total bank exposures	0.04	12,146	58	29	3,794	304
Retail mortgages						
0 - 3	0.20	18,244	12	5	963	77
4	0.46	27,370	19	15	4,230	338
5	0.92	21,964	24	32	7,429	594
6	2.00	5,358	28	63	3,580	286
7 - 8	5.13	444	29	104	491	39
Default	100.00	166	23	54	96	9
Total retail mortgages exposures	0.90	73,546	19	22	16,789	1,343
Other retail						
0 - 2	0.10	654	78	48	331	26
3 - 4	0.26	4,794	78	54	2,768	221
5	0.99	1,763	73	73	1,369	110
6	2.11	1,686	75	91	1,626	130
7 - 8	7.86	1,794	83	128	2,428	194
Default	100.00	69	78	77	57	5
Total other retail exposures	2.57	10,760	78	75	8,579	686
Total credit risk exposures subject to the IRB approach	1.20	157,545	32	36	60,363	4,829

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 30/09/2016	Exposure at default NZ\$m	Risk weight %	Risk weighted exposure NZ\$m	Total capital requirement NZ\$m
On-balance sheet exposures				
Strong	3,351	70	2,487	199
Good	5,725	90	5,462	437
Satisfactory	447	115	545	44
Weak	88	250	234	19
Default	46	-	-	-
Total on-balance sheet exposures	9,657	85	8,728	699

	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	1,392	1,211	85	1,091	87
Market related contracts	1,948	149	146	230	18
Total off-balance sheet exposures	3,340	1,360	92	1,321	105

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 30/09/2016	Exposure at default NZ\$m	Risk weight %	Risk weighted exposure NZ\$m	Total capital requirement NZ\$m
On-balance sheet exposures				
Corporates	49	100	51	4
Default	1	150	1	-
Total on-balance sheet exposures	50	101	52	4

	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	489	51	250	94	248	20
Market related contracts	606,149	-	1,800	4	76	6
Total off balance sheet	606,638	n/a	2,050	15	324	26

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

NOTES TO THE FINANCIAL STATEMENTS

Equity exposures

Unaudited 30/09/2016	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	31	2

Equity exposures have been calculated in accordance with BS2B.

Other exposures

Unaudited 30/09/2016	Exposure at default NZ\$m	Risk weight %	Risk weighted exposure NZ\$m	Total capital requirement NZ\$m
Cash	193	-	-	-
New Zealand dollar denominated claims on the Crown and the RBNZ	1,852	-	-	-
Other assets	1,591	100	1,687	135
Total other IRB credit risk exposures	3,636	44	1,687	135

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 2016, under the IRB approach, the Banking Group had NZ\$1,165 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 2016 the Banking Group had an implied risk weighted exposure of NZ\$6,052 million for operational risk and an operational risk capital requirement of NZ\$484 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 half-year ended 30 September 2016.

	Implied risk weighted exposure		Aggregate capital charge		Peak occurred on
	Period end	Peak	Period end	Peak	
Unaudited 30/09/2016	NZ\$m	NZ\$m	NZ\$m	NZ\$m	
Interest rate risk	8,525	9,388	682	751	15/09/2016
Foreign currency risk	35	130	3	10	17/05/2016
Equity risk	1	2	-	-	29/06/2016
	8,561		685		

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\$441 million (2015: NZ\$479 million).

The Banking Group regularly reviews the methodologies used to calculate the economic capital allocated to other material risks.

Capital adequacy of the Ultimate Parent Bank

Basel III capital ratios

	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
Unaudited				
Common equity tier 1 capital	9.6%	9.6%	9.7%	9.6%
Tier 1 capital	11.8%	11.3%	12.1%	11.6%
Total capital	14.3%	13.3%	14.7%	13.7%

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 2016 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2016. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 30 September 2016, 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

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.

Unaudited	30/09/2016		Total NZ\$m
	On-balance sheet NZ\$m	Off-balance sheet NZ\$m	
LVR range			
Does not exceed 60%	26,830	4,760	31,590
Exceeds 60% and not 70%	14,193	1,499	15,692
Exceeds 70% and not 80%	17,857	1,604	19,461
Does not exceed 80%	58,880	7,863	66,743
Exceeds 80% and not 90%	3,968	198	4,166
Exceeds 90%	1,812	211	2,023
Total	64,660	8,272	72,932

Reconciliation of mortgage related amounts

Unaudited	30/09/2016	
	Note	NZ\$m
Term loans - housing	13	67,298
Less: fair value hedging adjustment		(138)
Less: housing loans made to corporate customers		(2,524)
Add: unsettled re-purchases of mortgages from the NZ Branch		24
On-balance sheet retail mortgage exposures subject to the IRB approach	18	64,660
Add: off-balance sheet retail mortgage exposures subject to the IRB approach		8,272
Total retail mortgage exposures subject to the IRB approach (as per LVR analysis)		72,932

NOTES TO THE FINANCIAL STATEMENTS

30. 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 unless stated otherwise.

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	Investment
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 31.

NOTES TO THE FINANCIAL STATEMENTS

31. 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 2016 and 30 September 2015 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

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 2016, NZ\$19,656 million of assets were held in the Kingfisher Trust and the Covered Bond Trust (2015: NZ\$16,071 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 2016, NZ\$3,698 million of funds under management were invested in the Banking Group's own products or securities (2015: NZ\$3,100 million).

Custodial services

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

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Kiwisaver and other managed funds	11,219	9,147
The Bonus Bonds Trust	3,561	3,277
ANZ PIE Fund ¹	953	794
Discretionary Investment Management Service (DIMS) ²	7,007	6,020
Other investment portfolios ²	3,745	3,502
Total funds under management	26,485	22,740
Funds under custodial arrangements	7,408	6,535
Other funds held or managed subject to fiduciary responsibilities	1,927	1,547
Funds management fee income from structured entities	156	137

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 (2015: 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\$926 million (2015: NZ\$884 million), which is 0.6% (2015: 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

32. 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 30/09/2016 NZ\$000	Year to 30/09/2015 NZ\$000
Key management personnel compensation		
Salaries and short-term employee benefits	11,303	12,698
Post-employment benefits	280	220
Other long-term benefits	88	77
Termination benefits	79	-
Share-based payments expense	4,123	5,076
Total compensation of key management personnel	15,873	18,071
Loans to key management personnel	7,373	4,020

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 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Interest income	49	17
Interest expense	87	62
Fee income	19	23
Gain on sale of mortgages to the NZ Branch	1	1
Other operating income	19	35
Operating expenses	64	64
Mortgages sold to the NZ Branch	697	1,891
Immediate Parent Company		
Interest expense	1	-
Ordinary shares issued	-	675
Associates		
Interest expense	-	3
Direct fee expense	10	8
Dividends received	2	89
Share of associates' profit	5	5

NOTES TO THE FINANCIAL STATEMENTS

Balances with related parties

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Cash	47	-
Settlement balances receivable	31	86
Collateral paid	375	-
Derivative financial instruments	4,361	4,006
Other assets	108	97
Immediate Parent Company		
Derivative financial instruments	-	2
Associates		
Investments in associates	7	4
Total due from related parties	4,929	4,195

Ultimate Parent Bank and subsidiaries not part of the Banking Group

Settlement balances payable	323	476
Collateral received	-	688
Deposits and other borrowings	-	1
Derivative financial instruments	4,818	3,240
Payables and other liabilities	32	17
Subordinated debt	1,951	1,014
Immediate Parent Company		
Deposits and other borrowings	29	51
Associates		
Payables and other liabilities	1	-
Total due to related parties	7,154	5,487

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

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Financial guarantees provided to the Ultimate Parent Bank	152	183
Undrawn credit commitments provided to the Immediate Parent Company	250	250

NOTES TO THE FINANCIAL STATEMENTS

33. CAPITAL EXPENDITURE AND OPERATING LEASE COMMITMENTS

	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Contracts for outstanding capital expenditure		
Not later than 1 year	5	12
Future minimum lease payments under non-cancellable operating leases		
Not later than 1 year	87	47
Later than 1 year but not later than 5 years	217	258
Later than 5 years	151	197
Total operating lease commitments	455	502
Total commitments	460	514

34. COMPENSATION OF AUDITORS

	Year to 30/09/2016 NZ\$000	Year to 30/09/2015 NZ\$000
Compensation of auditors (KPMG New Zealand)		
Audit or review of financial statements ¹	2,219	2,165
Other services: ²		
Prudential and regulatory services ³	262	119
Offer documents assurance or review	100	155
Other assurance services ⁴	67	126
Total other services	429	400
Total compensation of auditors relating to the Banking Group	2,648	2,565
Fees paid on behalf of certain managed funds and not recharged ^{2,5}	33	35
Total compensation of auditors	2,681	2,600

¹ Includes fees for both the audit of the annual financial statements and reviews of interim financial statements.

² Comparative amounts have been updated to conform with current period classification, and to exclude NZ\$68,000 of fees that were recharged to managed funds.

³ Includes fees for reviews and controls reports required by regulations.

⁴ Includes fees for controls reports, comfort letters and other agreed upon procedures engagements.

⁵ 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

35. 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 2016 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, 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.

	30/09/2016		30/09/2015	
	Amount NZ\$m	% of Tier 1 Capital	Amount NZ\$m	% of Tier 1 Capital
Aggregate at end of year¹				
Bank connected persons (on gross basis, before netting)	9,349	81.3%	7,907	76.9%
Less: amount netted off	7,619	66.2%	5,205	50.6%
Bank connected persons (on partial bilateral net basis)	1,730	15.1%	2,702	26.3%
Non-bank connected persons ²	1	0.0%	1	0.0%
Peak end-of-day for the year³				
Bank connected persons (on gross basis, before netting)	9,352	86.4%	8,491	89.6%
Less: amount netted off	5,353	49.5%	5,334	56.3%
Bank connected persons (on partial bilateral net basis)	3,999	36.9%	3,157	33.3%
Non-bank connected persons ²	4	0.0%	3	0.0%
Rating-contingent limit⁴				
Bank connected persons (on a gross basis, before netting)	n/a	125.0%	n/a	125.0%
Bank connected persons (on partial bilateral net basis)	n/a	70.0%	n/a	70.0%
Non-bank connected persons	n/a	15.0%	n/a	15.0%

¹ The Banking Group has amounts due from the Immediate Parent Company and the Ultimate Parent Bank and other entities within the Overseas Banking Group arising in the ordinary course of business. These balances arise primarily from unrealised gains on trading and hedging derivative financial instruments with the Ultimate Parent Bank. As at 30 September 2016, the gross exposures to the Immediate Parent Company were NZ\$3 million (2015: NZ\$5 million). As at 30 September 2016, the gross exposures to the Ultimate Parent Bank were NZ\$9,346 million (2015: NZ\$7,902 million).

² Non-bank connected persons exposures comprise loans to directors of the Bank and their related parties.

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 beginning of the month in which the peak aggregate amount of credit exposure occurred. Previously Tier 1 Capital as at the end of the year was used to calculate the peak ratios, and comparative ratios have been updated.

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 2016.

NOTES TO THE FINANCIAL STATEMENTS

36. 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.

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,

NOTES TO THE FINANCIAL STATEMENTS

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, the associated budget and any changes.

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 highlights the current status of any outstanding audits.

HISTORICAL SUMMARY OF FINANCIAL STATEMENTS

	Year to 30/09/2016	Year to 30/09/2015	Year to 30/09/2014	Year to 30/09/2013	Year to 30/09/2012
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Interest income	6,423	6,926	6,272	5,957	6,017
Interest expense	3,421	4,051	3,529	3,344	3,335
Net interest income	3,002	2,875	2,743	2,613	2,682
Non-interest income	852	1,175	1,085	823	1,006
Operating income	3,854	4,050	3,828	3,436	3,688
Operating expenses	1,599	1,512	1,489	1,512	1,742
Credit impairment charge / (release)	150	74	(16)	63	193
Profit before income tax	2,105	2,464	2,355	1,861	1,753
Income tax expense	570	681	639	490	428
Profit after income tax	1,535	1,783	1,716	1,371	1,325
Dividends paid	(1,363)	(1,760)	(2,353)	(1,065)	(1,150)
Share capital issued	-	675	970	300	-
	As at 30/09/2016	As at 30/09/2015	As at 30/09/2014	As at 30/09/2013	As at 30/09/2012
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Total impaired assets	426	382	634	901	1,366
Total assets	160,819	147,527	128,915	120,444	121,564
Total liabilities	148,109	135,074	117,134	108,990	110,653
Equity	12,710	12,453	11,781	11,454	10,911

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.

Material Financial Support

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

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

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

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

Guarantors

No material obligations of the Bank are guaranteed as at 18 November 2016.

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 2016 of NZ\$6,218 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 payable in New Zealand dollars. The Covered Bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Details of the pool of assets that secure this guarantee are provided in note 31.

Other Matters

APRA has reviewed the level of 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 can comprise non-equity exposures to its New Zealand operations during ordinary times. Exposures in excess of this limit 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 loans and mortgages into the NZ Branch to provide funding for the Bank's business. As at 30 September 2016, the NZ Branch held approximately NZ\$6.0 billion of residential loans. To satisfy APRA's requirements described above, the Bank intends to repay this funding at approximately NZ\$1.6 billion per annum over the five year transition period ending 31 December 2020.

APRA has also clarified 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, in aggregate with all other exposures to its New Zealand operations, must not exceed 50% of the Ultimate Parent Bank's Level 1 Tier 1 capital. At present, only covered bonds meet APRA's criteria for contingent funding. On this basis, we believe that the Ultimate Parent Bank will continue to be able to provide financial support to the Bank.

GENERAL DISCLOSURES

Credit Rating Information

As at 18 November 2016 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 7 July 2016, Standard & Poor's changed the outlook on the Bank from Stable to Negative. On 18 August 2016, Moody's Investors Service changed the outlook on the Bank from Stable to Negative.

The Bank's credit ratings are:

Rating Agency	Current Credit Rating	Qualification
Standard & Poor's	AA-	Outlook Negative
Moody's Investors Service	Aa3	Outlook Negative
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 2016. These Conditions of Registration have applied from 1 November 2015.

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.

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

CONDITIONS OF REGISTRATION

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.

7. That no appointment of any director, chief executive officer, or executive who reports to 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;

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- (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.

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—

CONDITIONS OF REGISTRATION

- (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 APIL with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of APIL 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 ANPIL 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 ANPIL arising in the loan-to-valuation measurement period.
23. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non-Auckland 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-Auckland loans arising in the loan-to-valuation measurement period.
24. 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 24, —

"ANPIL", "APIL", "loan-to-valuation ratio", "non-Auckland loan", "qualifying new mortgage lending amount in respect of [...]" 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 November 2015:

"loan-to-valuation measurement period" means—

- (a) the six calendar month period ending on the last day of April 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 May 2016.

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 18 November 2016

Independent Non-Executive Director and Chair

John Frederick Judge

B Com, 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, Fletcher Building Limited, Fletcher Building Industries 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

Executive Director

David Duncan Hisco

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

Other directorships: ANZ Holdings (New Zealand) Limited

Non-Executive Directors

Shayne Cary Elliott

B Com
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

Nigel Henry Murray Williams

B Com
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, Capital Training 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, Spark New Zealand Limited, Willis Bond Capital Partners Limited, Willis Bond General Partner Limited, MyCare Limited, The Treasury

Joan Withers

MBA, AFInstD
Company Director
Auckland, New Zealand

Ms 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, Television New Zealand Limited, The Warehouse Group Limited, TVNZ International Limited, TVNZ Investments Limited, Freeview Television Limited, NZOOM 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 2016, 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, 18 November 2016.

Antony Carter



Shayne Elliott



David Hisco



John Judge



Mark Verbiest



Nigel Williams



Joan Withers





INDEPENDENT AUDITOR'S REPORT

To the Shareholder of ANZ Bank New Zealand Limited

Report on the Banking Group Disclosure Statement

We have audited the accompanying financial statements and supplementary information of ANZ Bank New Zealand Limited ("the Bank") and its subsidiaries ("Banking Group") on pages 3 to 66 of the Disclosure Statement. The financial statements comprise the balance sheet as at 30 September 2016, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information of the Banking Group. The supplementary information comprises the information that is required to be disclosed in accordance with Schedules 2, 4, 7, 11, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order).

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder of the Bank 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 of the Bank as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the disclosure statement

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

The directors are responsible for the preparation and fair presentation of supplementary information, in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order.

Auditor's responsibility

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

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

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

Opinion on the Disclosure Statement

In our opinion the Disclosure Statement of the Banking Group on pages 3 to 66 (excluding supplementary information):

- complies with generally accepted accounting practice in New Zealand
- complies with International Financial Reporting Standards
- give a true and fair view of the financial position of the Banking Group as at 30 September 2016 and of the financial performance and cash flows of the Banking Group for the year ended on that date.

Opinion on supplementary information

In our opinion, the supplementary information (excluding supplementary information relating to Capital Adequacy) that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order:

- 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.



Report on supplementary information relating to Capital Adequacy

We have reviewed the supplementary information relating to Capital Adequacy information, as disclosed in note 29 of the Disclosure Statement for the year ended 30 September 2016.

Directors' responsibility for the supplementary information relating to Capital Adequacy

The Directors are responsible for the preparation of supplementary information relating to Capital Adequacy that is required to be disclosed under Schedule 11 of the Order and prepared in accordance with the Capital Adequacy Framework (internal models based approach) (BS2B) and described in note 29 of the Disclosure Statement.

Auditor's responsibility

Our responsibility is to express an opinion on the supplementary information relating to Capital Adequacy based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* 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 supplementary information relating to Capital Adequacy information is, in all material respects:

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

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

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 supplementary information relating to capital adequacy disclosures.

Review opinion on the supplementary information relating to Capital Adequacy

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

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

Review 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.

Independence

Our firm has 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. There are, however, certain restrictions on dealings which the partners and employees of our firm can have with the Banking Group. These matters have not impaired our independence as auditors of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

Wellington
18 November 2016

ANNEX A-1 – ANZNIL FINANCIAL STATEMENTS

1. ANZ New Zealand (Int'l) Limited Interim Financial Statements for the six months ended 31 March 2018.
2. ANZ New Zealand (Int'l) Limited Annual Report for the year ended 30 September 2017.
3. ANZ New Zealand (Int'l) Limited Annual Report for the year ended 30 September 2016.

**ANZ NEW ZEALAND (INT'L) LIMITED
INTERIM FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 31 MARCH 2018

INTERIM MANAGEMENT REPORT

FOR THE SIX MONTHS ENDED 31 MARCH 2018

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).

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 changes in the nature of the Company's business during the period.

Business Review

The movement in the Company's total assets from \$21,263 million as at 30 September 2017 to \$20,147 million as at 31 March 2018 has been driven primarily by a decreased funding requirement from its parent entity.

The movement in funding includes:

NZ\$m	Debt Issuances	Commercial Paper	Total
Issuances	2,510	1,164	3,674
Maturities	(2,720)	(2,358)	(5,078)
Net issuances	(210)	(1,194)	(1,404)
Foreign exchange revaluation	279	30	309
Movement	69	(1,164)	(1,095)

Net interest income of \$3 million for the six months to 31 March 2018 is consistent with interest income for the six months to 31 March 2017.

Principal Risks and Uncertainties

The Company expects minimal change to its principal risks and uncertainties over the next six months.

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. 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

Anthony Bradshaw resigned as a Director of the Company and Penny Dell was appointed as a Director of the Company on 21 March 2018. There have been no other changes to the Directors of the Company since 30 September 2017.

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:

- the interim financial statements have been prepared in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*
- the interim management report includes a fair review of the important events that have occurred during the first six months of the financial year, their impact on the interim financial statements and the principal risks and uncertainties for the remaining six months of the financial year.

For and on behalf of the Board of Directors:



Penny Dell
Director
4 May 2018



Stewart Taylor
Director
4 May 2018

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended	31 Mar 18 NZ\$m	31 Mar 17 NZ\$m
Interest income	183	155
Interest expense	180	152
Profit before income tax	3	3
Income tax expense	1	1
Profit after income tax	2	2

There are no items of other comprehensive income.

STATEMENT OF CHANGES IN EQUITY

For the six months ended	31 Mar 18 NZ\$m	31 Mar 17 NZ\$m
Total equity (retained earnings)		
Opening balance	5	5
Profit after income tax	2	2
Closing balance	7	7

BALANCE SHEET

As at	Note	31 Mar 18 NZ\$m	30 Sep 17 NZ\$m
Assets			
Due from the Parent Company		20,147	21,263
Total assets		20,147	21,263
Liabilities			
Accrued interest payable		12	36
Commercial paper		2,555	3,719
Current tax liabilities		2	1
Debt issuances	3	17,571	17,502
Total liabilities		20,140	21,258
Net assets		7	5
Equity			
Retained earnings		7	5
Total Equity		7	5

CASH FLOW STATEMENT

For the six months ended	31 Mar 18	31 Mar 17
	NZ\$m	NZ\$m
Cash flows from operating activities		
Interest received	207	205
Interest paid	(204)	(202)
Income taxes paid	-	(1)
Net cash flows provided by operating activities	3	2
Cash flows from investing activities		
Decrease in due from the Parent Company	1,401	2,063
Net cash flows provided by investing activities	1,401	2,063
Cash flows from financing activities		
Proceeds from issue of debt issuances	2,510	2,393
Decrease in commercial paper	(1,194)	(2,578)
Redemption of debt issuances	(2,720)	(1,880)
Net cash flows used in financing activities	(1,404)	(2,065)
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the period	-	-
Cash and cash equivalents at end of the period	-	-

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(i) Statement of compliance

These interim financial statements have been prepared in accordance with the requirements of the Disclosure and Transparency Rules issued by the United Kingdom Financial Conduct Authority and New Zealand Generally Accepted Accounting Practice (NZ GAAP) as applicable to interim financial statements. The Company is a publicly accountable for-profit entity for the purposes of complying with NZ GAAP.

These financial statements comply with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the financial statements for the year ended 30 September 2017.

(ii) Basis of measurement

These interim financial statements have been prepared on a going concern basis in accordance with historical cost concepts.

(iii) Changes in accounting policies

The accounting policies applied by the Company are consistent with those applied and disclosed in the previous full year financial statements.

(iv) Presentation currency and rounding

The amounts contained in the financial statements are presented in millions of New Zealand dollars.

2. RELATED PARTIES

Cash and cash equivalents comprise short term deposits with the Parent Company.

Commercial paper and debt issuances are guaranteed by the Parent Company.

Covered Bonds

As at 31 March 2018, covered bonds of \$3,830 million (30 September 2017: \$5,325 million) included in debt issuances were guaranteed by ANZNZ Covered Bond Trust Limited as trustee of ANZNZ Covered Bond Trust (the Trust) under the terms of the Parent Company's covered bond programme.

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

3. DEBT ISSUANCES

	31 Mar 18 NZ\$m	30 Sep 17 NZ\$m
U.S. medium-term notes	9,336	9,004
Euro medium-term notes	4,405	3,173
Covered bonds	3,830	5,325
Total debt issued	17,571	17,502

4. FAIR VALUE MEASUREMENTS

Financial assets and financial liabilities not measured at fair value

No assets or liabilities are carried at fair value. Below is a comparison of the carrying amounts as reported on the balance sheet and fair value of financial asset and liability categories other than those categories where the carrying amount is considered a reasonable approximation of fair value:

	31 Mar 18		30 Sep 17	
	Carrying amount NZ\$m	Fair value NZ\$m	Carrying amount NZ\$m	Fair value NZ\$m
Financial assets				
Due from the Parent Company	20,147	20,029	21,263	21,345
Financial liabilities				
Commercial paper	2,555	2,554	3,719	3,721
Debt issuances	17,571	17,454	17,502	17,582

5. SUBSEQUENT EVENTS

On 4 May 2018, the Company's Board resolved to pay an ordinary dividend of NZ\$4.9 million no later than 31 May 2018.

Independent Review Report

To the shareholder of ANZ New Zealand (Int'l) Limited

Report on the interim financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements on pages 2 to 5 do not:

- i. present fairly in all material respects the company's financial position as at 31 March 2018 and its financial performance and cash flows for the 6 month period ended on that date; and
- ii. comply with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.

We have completed a review of the accompanying interim financial statements which comprise:

- the balance sheet as at 31 March 2018;
- the statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for conclusion

A review of interim financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of ANZ New Zealand (Int'l) Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Other than in our capacity as auditor we have no relationship with, or interests in, the company.



Use of this Independent Review Report

This report is made solely to the shareholder as a body. Our review work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the Independent Review Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our review work, this report, or any of the opinions we have formed.



Responsibilities of the Directors for the interim financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the interim financial statements in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*;



- implementing necessary internal control to enable the preparation of interim financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the interim financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these interim financial statements.

This description forms part of our Independent Review Report.

KPMG
Auckland
4 May 2018

**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:

- 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
- 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	30/09/2016
	NZ\$m	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	30/09/2016
	NZ\$m	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	Year to 30/09/2016
	NZ\$000	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		Total NZ\$m	30/09/2016		Total NZ\$m
	within one year NZ\$m	after more than one year NZ\$m		within one year NZ\$m	after more than one year 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.

	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
30/09/2017						
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

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.



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
Wellington

15 November 2017

**ANZ NEW ZEALAND (INT'L) LIMITED
ANNUAL REPORT**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2016

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ANNUAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2016

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.

Pursuant to section 211(3) of the Companies Act 1993, the shareholder of the Company has agreed that the Annual Report of the Company need not comply with any of the paragraphs (e) to (h) and (j) of subsection (1) and subsection (2) of section 211.

Management Report

Nature of Business

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 \$20,824 million as at 30 September 2015 to \$21,317 million as at 30 September 2016 has been driven primarily by an increased funding requirement from its parent entity.

The movement includes:

NZ\$m	Debt Issuances	Commercial Paper	Total
Issuances	6,255	15,541	21,796
Maturities	(3,378)	(14,208)	(17,586)
Net issuances	2,877	1,333	4,210
Foreign exchange revaluation	(2,748)	(938)	(3,686)
Movement	129	395	524

Net interest income was \$6 million for the year to 30 September 2016 (2015: \$7 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

There have been no changes to the Directors of the Company since 30 September 2015.

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:

- 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
- 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
16 November 2016



Antonia Watson
Director
16 November 2016

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Interest income	6	281	260
Interest expense	2	275	253
Profit before income tax		6	7
Income tax expense	3	2	2
Profit after income tax		4	5

There are no items of other comprehensive income.

STATEMENT OF CHANGES IN EQUITY

	Note	Retained earnings NZ\$m	Total equity NZ\$m
As at 1 October 2014		5	5
Profit after income tax		5	5
Ordinary dividend paid	8	(5)	(5)
As at 30 September 2015		5	5
Profit after income tax		4	4
Ordinary dividend paid	8	(4)	(4)
As at 30 September 2016		5	5

BALANCE SHEET

	Note	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Assets			
Due from the Parent Company	6	21,317	20,824
Total assets		21,317	20,824
Liabilities			
Accrued interest payable		60	91
Commercial paper	4	5,358	4,963
Current tax liabilities		1	1
Debt issuances	5	15,893	15,764
Total liabilities		21,312	20,819
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
16 November 2016



Antonia Watson
Director
16 November 2016

CASH FLOW STATEMENT

	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Cash flows from operating activities		
Interest received	312	267
Interest paid	(306)	(260)
Tax paid	(2)	(2)
Net cash flows provided by operating activities	4	5
Cash flows from investing activities		
Decrease / (increase) in due from the Parent Company	(4,210)	668
Net cash flows provided by / (used in) investing activities	(4,210)	668
Cash flows from financing activities		
Proceeds from debt issuances	6,255	3,337
Increase / (decrease) in due to other related parties	-	(179)
Increase / (decrease) in commercial paper	1,333	(494)
Redemption of debt issuances	(3,378)	(3,511)
Dividends paid	(4)	(5)
Net cash flows provided by / (used in) financing activities	4,206	(852)
Net increase / (decrease) in cash and cash equivalents	-	(179)
Cash and cash equivalents at beginning of the year	-	179
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	4	5
Adjustments		
Change in accrued interest receivable	31	7
Change in accrued interest payable	(31)	(7)
Net cash flows provided by operating activities	4	5

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Act 1993, 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 profit-oriented entities
- International Financial Reporting Standards (IFRS).

The ultimate parent company is Australia and New Zealand Banking Group Limited (the Ultimate Parent).

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, amounts due to related parties 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)

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

2. INTEREST EXPENSE

	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Commercial paper	44	15
Debt issuances	231	238
Total interest expense	275	253

3. INCOME TAX

	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	6	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

4. COMMERCIAL PAPER

	30/09/2016 NZ\$m	30/09/2015 NZ\$m
U.S. commercial paper	4,516	4,844
Euro commercial paper	842	119
Total commercial paper	5,358	4,963

Commercial paper issued is guaranteed by the Parent Company.

NOTES TO THE FINANCIAL STATEMENTS

5. DEBT ISSUANCES

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
U.S. medium term notes	6,883	6,831
Euro medium term notes	2,792	3,598
Covered bonds	6,218	5,335
Total debt issuances	15,893	15,764

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 30/09/2016	Year to 30/09/2015
	NZ\$000	NZ\$000
Audit or review of financial statements	38	37
Other services:		
Review of offer documents	96	143
Other assurance services	16	33
Total other services	112	176
Total fees paid to auditors by the Parent Company	150	213

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.

Amounts due to other related parties are guaranteed by the Parent Company.

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.

	30/09/2016		Total NZ\$m	30/09/2015		Total NZ\$m
	within one year NZ\$m	after more than one year NZ\$m		within one year NZ\$m	after more than one year NZ\$m	
Assets						
Due from Parent Company	8,384	12,933	21,317	9,451	11,373	20,824
Liabilities						
Debt issuances	2,960	12,933	15,893	4,391	11,373	15,764

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 (2015: 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 \$8.61 per share (2015: \$9.00 per share).

NOTES TO THE FINANCIAL STATEMENTS

9. FINANCIAL RISK MANAGEMENT

Financial instruments are entered into by the Company in its operations as a financial intermediary. The Company's operations are matched funded to minimise interest rate, currency and liquidity risks.

There are no material off balance sheet instruments. All aspects of risk are managed within a framework of policies, limits, control procedures, systems and reporting. Risk exposures are independently monitored and controlled within predefined limits, with an internal reporting framework in place.

Credit risk

Credit risk is the potential that the counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract, thus causing loss.

The Company's principal exposure is to the Parent Company and the carrying amount represents the Company's maximum and net exposure to credit risk.

Market risk

Interest rate risk

The following tables represent the interest rate sensitivity of the Company's assets and liabilities 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 on contractual repricing information.

	Carrying value NZ\$m	At call or less than 3 months NZ\$m	3-6 months NZ\$m	6-12 months NZ\$m	1-5 years NZ\$m	Non interest bearing NZ\$m
30/09/2016						
Financial assets						
Due from the Parent Company	21,317	6,108	1,799	813	12,527	70
Total financial assets	21,317	6,108	1,799	813	12,527	70
Financial liabilities						
Accrued interest payable	60	-	-	-	-	60
Commercial paper	5,358	3,431	1,802	125	-	-
Debt issuances	15,893	2,678	-	688	12,527	-
Total financial liabilities	21,311	6,109	1,802	813	12,527	60
Net repricing profile	6	(1)	(3)	-	-	10
30/09/2015						
Financial assets						
Due from the Parent Company	20,824	8,385	2,284	-	10,059	96
Total financial assets	20,824	8,385	2,284	-	10,059	96
Financial liabilities						
Accrued interest payable	91	-	-	-	-	91
Commercial paper	4,963	4,114	849	-	-	-
Debt issuances	15,764	4,268	1,437	-	10,059	-
Total financial liabilities	20,818	8,382	2,286	-	10,059	91
Net repricing profile	6	3	(2)	-	-	5

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 under certain conditions, cash outflows can exceed cash inflows in a given period. Liquidity risk arises from mismatch in the final maturity of on-balance sheet assets and liabilities plus settlement of off-balance sheet activities.

The following maturity analysis of assets and liabilities has been prepared on the basis of the remaining period to contractual maturity as at balance date. The amounts represent principal and interest cash flows and may differ to the amounts reported on the balance sheet.

	Total NZ\$m	Less than 3 months NZ\$m	3-12 months NZ\$m	1-5 years NZ\$m	Beyond 5 years NZ\$m	No specified maturity NZ\$m
30/09/2016						
Assets						
Due from the Parent Company	22,039	3,055	5,530	10,337	3,117	-
Total financial assets	22,039	3,055	5,530	10,337	3,117	-
Liabilities						
Commercial paper	5,376	1,054	4,322	-	-	-
Debt issuances	16,637	1,995	1,204	10,323	3,115	-
Total financial liabilities	22,013	3,049	5,526	10,323	3,115	-
Net liquidity gap	26	6	4	14	2	-
30/09/2015						
Assets						
Due from the Parent Company	21,436	5,188	4,399	10,455	1,394	-
Total financial assets	21,436	5,188	4,399	10,455	1,394	-
Liabilities						
Commercial paper	4,966	2,985	1,981	-	-	-
Debt issuance	16,448	2,197	2,414	10,444	1,393	-
Total financial liabilities	21,414	5,182	4,395	10,444	1,393	-
Net liquidity gap	22	6	4	11	1	-

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

	30/09/2016		30/09/2015	
	Carrying amount NZ\$m	Fair value NZ\$m	Carrying amount NZ\$m	Fair value NZ\$m
Financial assets				
Due from the Parent Company	21,317	21,548	20,824	21,014
Total financial assets	21,317	21,548	20,824	21,014
Financial liabilities				
Accrued interest payable	60	60	91	91
Commercial paper	5,358	5,364	4,963	4,964
Debt issuances	15,893	16,118	15,764	15,953
Total financial liabilities	21,311	21,542	20,818	21,008



INDEPENDENT AUDITOR'S REPORT

To the Shareholder of ANZ New Zealand (Int'l) Limited

We have audited the accompanying financial statements of ANZ New Zealand (Int'l) Limited (the Company) on pages 2 to 10. The financial statements comprise the balance sheet as at 30 September 2016, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the company's 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 company's shareholder as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the financial statements

The directors are responsible on behalf of the Company 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Our firm has also provided other services to the Company in relation to prospectus reviews and assurance services. These matters have not impaired our independence as auditors of the Company. The firm has no other relationship with, or interest in, the Company.

Opinion

In our opinion the financial statements on pages 2 to 10 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of ANZ New Zealand (Int'l) Limited as at 30 September 2016 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Wellington
16 November 2016

ANNEX B – POOL SUMMARY REPORT

ANZNZ Covered Bond Trust - Pool Summary Report

Summary as at 18 July 2018

Pool Summary

Acquisition Cut off Date	01 Jul 2018
Current Aggregate Principal Balance (NZD)	\$11,204,107,260
Number of Loans	56,623
Number of Loan Groups	35,908
Average Loan Group Size	312,023
Maximum Loan Group Balance	\$1,982,309
Weighted Average Current Loan to Value Ratio (LVR)	54.81 %
Weighted Average Current Indexed Loan to Value Ratio (LVR)	49.10 %
Weighted Average Interest Rate	4.62 %
Weighted Average Seasoning (Months)	36.50
Weighted Average Remaining Term (Months)	238.27

Mortgage Pool by Current Loan to Value Ratio (LVR)

	Number of Loans	(%) Number of Loans	Balance Outstanding	(%) Balance Outstanding
up to and including 25.00%	10,380	18.33 %	\$832,075,089	7.43 %
> 25.00% up to and including 30.00%	3,307	5.84 %	\$454,397,143	4.06 %
> 30.00% up to and including 35.00%	3,571	6.31 %	\$546,830,623	4.88 %
> 35.00% up to and including 40.00%	3,867	6.83 %	\$644,059,141	5.75 %
> 40.00% up to and including 45.00%	4,119	7.27 %	\$764,237,768	6.82 %
> 45.00% up to and including 50.00%	4,452	7.86 %	\$876,896,667	7.83 %
> 50.00% up to and including 55.00%	4,473	7.90 %	\$930,498,664	8.30 %
> 55.00% up to and including 60.00%	4,748	8.39 %	\$1,049,367,295	9.37 %
> 60.00% up to and including 65.00%	4,384	7.74 %	\$1,059,862,003	9.46 %
> 65.00% up to and including 70.00%	4,645	8.20 %	\$1,351,261,243	12.06 %
> 70.00% up to and including 75.00%	3,993	7.05 %	\$1,026,397,819	9.16 %
> 75.00% up to and including 80.00%	4,612	8.15 %	\$1,652,350,661	14.75 %
> 80.00% up to and including 85.00%	59	0.10 %	\$11,938,845	0.11 %
> 85.00% up to and including 90.00%	12	0.02 %	\$3,423,808	0.03 %
> 90.00% up to and including 95.00%	0	0.00 %	\$0	0.00 %
> 95.00% up to and including 100.00%	0	0.00 %	\$0	0.00 %
> 100.00%	1	0.00 %	\$510,492	0.00 %
Total	56,623	100.00 %	\$11,204,107,260	100.00 %

Mortgage Pool by Current Indexed Loan to Value Ratio (LVR)*

	Number of Loans	(%) Number of Loans	Balance Outstanding	(%) Balance Outstanding
up to and including 25.00%	13,291	23.47 %	\$1,200,282,733	10.71 %
> 25.00% up to and including 30.00%	4,027	7.11 %	\$628,457,986	5.61 %
> 30.00% up to and including 35.00%	4,418	7.80 %	\$732,907,943	6.54 %
> 35.00% up to and including 40.00%	4,662	8.23 %	\$852,803,822	7.61 %
> 40.00% up to and including 45.00%	4,965	8.77 %	\$994,269,502	8.87 %
> 45.00% up to and including 50.00%	5,300	9.36 %	\$1,110,749,034	9.91 %
> 50.00% up to and including 55.00%	5,147	9.09 %	\$1,173,942,388	10.48 %
> 55.00% up to and including 60.00%	4,521	7.98 %	\$1,174,296,944	10.48 %
> 60.00% up to and including 65.00%	3,403	6.01 %	\$965,206,873	8.61 %
> 65.00% up to and including 70.00%	2,719	4.80 %	\$833,630,394	7.44 %
> 70.00% up to and including 75.00%	2,203	3.89 %	\$727,447,886	6.49 %
> 75.00% up to and including 80.00%	1,928	3.40 %	\$801,922,004	7.16 %
> 80.00% up to and including 85.00%	29	0.05 %	\$6,587,670	0.06 %
> 85.00% up to and including 90.00%	8	0.01 %	\$818,381	0.01 %
> 90.00% up to and including 95.00%	1	0.00 %	\$273,208	0.00 %
> 95.00% up to and including 100.00%	0	0.00 %	\$0	0.00 %
> 100.00%	1	0.00 %	\$510,492	0.00 %
Total	56,623	100.00 %	\$11,204,107,260	100.00 %

* Based on quarterly data using the latest NZ QV House Price Index values available to the Servicer on each Determination Date falling in January, April, July and October. For further information please refer to the Covered Bond Trust Definitions Schedule.

Mortgage Pool by Mortgage Loan Interest Rate

	Number of Loans	(%) Number of Loans	Balance Outstanding	(%) Balance Outstanding
up to and including 5.00%	42,722	75.45 %	\$9,574,548,167	85.46 %
> 5.00% up to and including 5.50%	4,826	8.52 %	\$601,923,210	5.37 %
> 5.50% up to and including 6.00%	8,485	14.99 %	\$945,521,549	8.44 %
> 6.00% up to and including 6.50%	186	0.33 %	\$29,913,772	0.27 %
> 6.50% up to and including 7.00%	335	0.59 %	\$45,275,018	0.40 %
> 7.00% up to and including 7.50%	68	0.12 %	\$6,922,127	0.06 %
> 7.50% up to and including 8.00%	1	0.00 %	\$3,418	0.00 %
> 8.00% up to and including 8.50%	0	0.00 %	\$0	0.00 %
> 8.50% up to and including 9.00%	0	0.00 %	\$0	0.00 %
> 9.00% up to and including 9.50%	0	0.00 %	\$0	0.00 %
> 9.50% up to and including 10.00%	0	0.00 %	\$0	0.00 %
> 10.00%	0	0.00 %	\$0	0.00 %
Total	56,623	100.00 %	\$11,204,107,260	100.00 %

Mortgage Pool by Interest Option

	Number of Loans	(%) Number of Loans	Balance Outstanding	(%) Balance Outstanding
<= 1 Year Fixed	13,977	24.68 %	\$3,309,131,825	29.53 %
<= 2 Year Fixed	20,351	35.94 %	\$4,465,882,676	39.86 %
<= 3 Year Fixed	4,202	7.42 %	\$864,934,917	7.72 %
<= 4 Year Fixed	4,510	7.96 %	\$949,481,657	8.47 %
<= 5 Year Fixed	1,485	2.62 %	\$274,741,018	2.45 %
> 5 Year Fixed	881	1.56 %	\$155,492,714	1.39 %
Total Fixed Rate	45,406	80.19 %	\$10,019,664,807	89.43 %
Total Variable Rate	11,217	19.81 %	\$1,184,442,454	10.57 %
Total	56,623	100.00 %	\$11,204,107,260	100.00 %

Mortgage Pool by Consolidated Loan Balance

	Number of Groups	(%) Number of Groups	Balance Outstanding	(%) Balance Outstanding
> \$0 up to and including \$100,000	6,298	17.54 %	\$340,898,916	3.04 %
> \$100,000 up to and including \$200,000	8,309	23.14 %	\$1,256,654,356	11.22 %
> \$200,000 up to and including \$300,000	7,058	19.66 %	\$1,747,133,984	15.59 %
> \$300,000 up to and including \$400,000	4,270	11.89 %	\$1,481,039,540	13.22 %
> \$400,000 up to and including \$500,000	3,317	9.24 %	\$1,498,695,258	13.38 %
> \$500,000 up to and including \$600,000	2,464	6.86 %	\$1,350,912,184	12.06 %
> \$600,000 up to and including \$700,000	1,513	4.21 %	\$978,558,948	8.73 %
> \$700,000 up to and including \$800,000	915	2.55 %	\$684,623,968	6.11 %
> \$800,000 up to and including \$900,000	529	1.47 %	\$448,945,614	4.01 %
> \$900,000 up to and including \$1.00m	406	1.13 %	\$385,689,521	3.44 %
> \$1.00m up to and including \$1.25m	504	1.40 %	\$558,892,834	4.99 %
> \$1.25m up to and including \$1.50m	229	0.64 %	\$310,657,734	2.77 %
> \$1.50m up to and including \$1.75m	69	0.19 %	\$110,636,793	0.99 %
> \$1.75m up to and including \$2.00m	27	0.08 %	\$50,767,611	0.45 %
Total	35,908	100.00 %	\$11,204,107,260	100.00 %

Mortgage Pool by Geographic Distribution

	Number of Loans	(%) Number of Loans	Balance Outstanding	(%) Balance Outstanding
Auckland	21,073	37.22 %	\$6,024,451,681	53.77 %
Bay of Plenty	3,165	5.59 %	\$459,771,125	4.10 %
Canterbury	7,436	13.13 %	\$1,175,309,002	10.49 %
Gisborne	482	0.85 %	\$51,762,861	0.46 %
Hawke's Bay	1,507	2.66 %	\$190,665,149	1.70 %
Manawatu-Wanganui	2,633	4.65 %	\$274,917,310	2.45 %
Nelson/Marlborough	1,299	2.29 %	\$175,071,126	1.56 %
Northland	1,362	2.41 %	\$172,615,799	1.54 %
Otago	2,942	5.20 %	\$393,265,419	3.51 %
Southland	122	0.22 %	\$12,551,709	0.11 %
Taranaki	749	1.32 %	\$104,123,959	0.93 %
Waikato	5,494	9.70 %	\$900,443,975	8.04 %
Wellington	7,972	14.08 %	\$1,231,640,785	10.99 %
West Coast	387	0.68 %	\$37,517,360	0.33 %
Total	56,623	100.00 %	\$11,204,107,260	100.00 %

Mortgage Pool by Payment Type

	Number of Loans	(%) Number of Loans	Balance Outstanding	(%) Balance Outstanding
P&I	51,849	91.57 %	\$9,668,306,376	86.29 %
Interest Only	4,774	8.43 %	\$1,535,800,884	13.71 %
Total	56,623	100.00 %	\$11,204,107,260	100.00 %

Mortgage Pool by Documentation Type

	Number of Loans	(%) Number of Loans	Balance Outstanding	(%) Balance Outstanding
Low Doc Loans	0	0.00 %	\$0	0.00 %
Full Doc Loans	56,623	100.00 %	\$11,204,107,260	100.00 %
No Doc Loans	0	0.00 %	\$0	0.00 %
Total	56,623	100.00 %	\$11,204,107,260	100.00 %

Mortgage Pool by Remaining Interest Only Period

	Number of Loans	(%) Number of Loans	Balance Outstanding	(%) Balance Outstanding
> 0 up to and including 1 years	514	10.77 %	\$140,680,543	9.16 %
> 1 up to and including 2 years	451	9.45 %	\$116,241,172	7.57 %
> 2 up to and including 3 years	182	3.81 %	\$38,654,749	2.52 %
> 3 up to and including 4 years	587	12.30 %	\$204,046,297	13.29 %
> 4 up to and including 5 years	506	10.60 %	\$162,385,984	10.57 %
> 5 up to and including 6 years	311	6.52 %	\$78,746,545	5.13 %
> 6 up to and including 7 years	748	15.67 %	\$244,839,450	15.94 %
> 7 up to and including 8 years	1,208	25.31 %	\$438,601,117	28.56 %
> 8 up to and including 9 years	242	5.07 %	\$103,568,393	6.74 %
> 9 up to and including 10 years	4	0.08 %	\$1,450,758	0.09 %
>10 years	20	0.42 %	\$6,545,874	0.43 %
Total	4,773	100.00 %	\$1,535,760,884	100.00 %

Mortgage Pool by Occupancy Status

	Number of Loans	(%) Number of Loans	Balance Outstanding	(%) Balance Outstanding
Owner Occupied (Full Recourse)	47,105	83.19 %	\$8,728,509,898	77.90 %
Residential Investment (Full Recourse)	9,518	16.81 %	\$2,475,597,362	22.10 %
Total	56,623	100.00 %	\$11,204,107,260	100.00 %

Mortgage Pool by Property Type

	Number of Loans	(%) Number of Loans	Balance Outstanding	(%) Balance Outstanding
House	50,797	89.71 %	\$10,103,543,388	90.18 %
Unit/ Flat/ Apartment*	5,826	10.29 %	\$1,100,563,872	9.82 %
Other	0	0.00 %	\$0	0.00 %
Total	56,623	100.00 %	\$11,204,107,260	100.00 %

* Unit/ Flat/ Apartment - refers to properties with more than one title or dwelling recorded against it.

Mortgage Pool by Loan Seasoning

	Number of Loans	(%) Number of Loans	Balance Outstanding	(%) Balance Outstanding
up to and including 3 months	0	0.00 %	\$0	0.00 %
> 3 up to and including 6 months	592	1.05 %	\$243,669,725	2.17 %
> 6 up to and including 9 months	759	1.34 %	\$325,196,570	2.90 %
> 9 up to and including 12 months	2,273	4.01 %	\$540,534,599	4.82 %
> 12 up to and including 15 months	2,723	4.81 %	\$661,656,598	5.91 %
> 15 up to and including 18 months	2,411	4.26 %	\$551,272,366	4.92 %
> 18 up to and including 21 months	2,950	5.21 %	\$692,315,809	6.18 %
> 21 up to and including 24 months	3,192	5.64 %	\$834,537,590	7.45 %
> 24 up to and including 27 months	2,596	4.58 %	\$645,133,526	5.76 %
> 27 up to and including 30 months	2,328	4.11 %	\$452,019,029	4.03 %
> 30 up to and including 33 months	3,806	6.72 %	\$801,772,172	7.16 %
> 33 up to and including 36 months	3,926	6.93 %	\$867,761,720	7.75 %
> 36 up to and including 48 months	9,948	17.57 %	\$1,960,786,358	17.50 %
> 48 up to and including 60 months	7,741	13.67 %	\$1,166,616,253	10.41 %
> 60 up to and including 72 months	4,419	7.80 %	\$652,823,346	5.83 %
> 72 up to and including 84 months	2,224	3.93 %	\$299,363,747	2.67 %
> 84 up to and including 96 months	1,332	2.35 %	\$157,611,553	1.41 %
> 96 up to and including 108 months	1,136	2.01 %	\$131,937,070	1.18 %
> 108 up to and including 120 months	712	1.26 %	\$80,460,869	0.72 %
> 120 months	1,555	2.75 %	\$138,638,362	1.24 %
Total	56,623	100.00 %	\$11,204,107,260	100.00 %

Mortgage Pool by Remaining Tenor

	Number of Loans	(%) Number of Loans	Balance Outstanding	(%) Balance Outstanding
up to and including 1 year	1,605	2.83 %	\$147,866,300	1.32 %
> 1 up to and including 2 years	1,740	3.07 %	\$139,897,605	1.25 %
> 2 up to and including 3 years	1,463	2.58 %	\$78,449,247	0.70 %
> 3 up to and including 4 years	1,845	3.26 %	\$257,659,855	2.30 %
> 4 up to and including 5 years	1,764	3.12 %	\$233,752,230	2.09 %
> 5 up to and including 6 years	1,495	2.64 %	\$163,454,849	1.46 %
> 6 up to and including 7 years	2,014	3.56 %	\$346,064,533	3.09 %
> 7 up to and including 8 years	2,533	4.47 %	\$555,624,527	4.96 %
> 8 up to and including 9 years	1,614	2.85 %	\$237,623,827	2.12 %
> 9 up to and including 10 years	1,356	2.39 %	\$156,785,546	1.40 %
> 10 up to and including 15 years	7,022	12.40 %	\$976,251,099	8.71 %
> 15 up to and including 20 years	8,186	14.46 %	\$1,427,170,754	12.74 %
> 20 up to and including 25 years	7,825	13.82 %	\$1,602,446,801	14.30 %
> 25 up to and including 30 years	16,161	28.54 %	\$4,881,060,088	43.56 %
> 30 years	0	0.00 %	\$0	0.00 %
Total	56,623	100.00 %	\$11,204,107,260	100.00 %

Mortgage Pool by Delinquencies

	Number of Loans	(%) Number of Loans	Balance Outstanding	(%) Balance Outstanding
Current (0 days)	56,325	99.47 %	\$11,148,404,943	99.50 %
> 0 days up to and including 30 days	213	0.38 %	\$38,381,081	0.34 %
> 30 days up to and including 60 days	63	0.11 %	\$13,878,628	0.12 %
> 60 days up to and including 90 days	22	0.04 %	\$3,442,609	0.03 %
> 90 days up to and including 120 days	0	0.00 %	\$0	0.00 %
> 120 days up to and including 150 days	0	0.00 %	\$0	0.00 %
> 150 days up to and including 180 days	0	0.00 %	\$0	0.00 %
> 180 days	0	0.00 %	\$0	0.00 %
Total	56,623	100.00 %	\$11,204,107,260	100.00 %

Mortgage Pool by Remaining Term on Fixed Rate Period

	Number of Loans	(%) Number of Loans	Balance Outstanding	(%) Balance Outstanding
> 0 up to and including 3 months	7,583	16.70 %	\$1,704,908,887	17.02 %
> 3 up to and including 6 months	8,130	17.91 %	\$1,834,531,400	18.31 %
> 6 up to and including 9 months	6,888	15.17 %	\$1,467,263,681	14.64 %
> 9 up to and including 12 months	7,975	17.56 %	\$1,846,188,611	18.43 %
> 12 up to and including 15 months	3,515	7.74 %	\$738,366,391	7.37 %
> 15 up to and including 18 months	2,908	6.40 %	\$671,506,392	6.70 %
> 18 up to and including 21 months	2,598	5.72 %	\$575,096,562	5.74 %
> 21 up to and including 24 months	2,721	5.99 %	\$569,034,085	5.68 %
> 24 up to and including 27 months	733	1.61 %	\$152,388,541	1.52 %
> 27 up to and including 30 months	725	1.60 %	\$144,396,436	1.44 %
> 30 up to and including 33 months	502	1.11 %	\$96,844,612	0.97 %
> 33 up to and including 36 months	380	0.84 %	\$68,333,021	0.68 %
> 36 up to and including 48 months	643	1.42 %	\$131,699,742	1.31 %
> 48 up to and including 60 months	105	0.23 %	\$19,106,446	0.19 %
> 60 months	0	0.00 %	\$0	0.00 %
Total	45,406	100.00 %	\$10,019,664,807	100.00 %

Mortgage Pool by Payment Frequency

	Number of Loans	(%) Number of Loans	Balance Outstanding	(%) Balance Outstanding
Weekly	13,313	23.51 %	\$2,155,722,004	19.24 %
Fortnightly	27,302	48.22 %	\$4,953,729,890	44.21 %
Monthly	16,007	28.27 %	\$4,094,590,372	36.55 %
Other	1	0.00 %	\$64,994	0.00 %
Total	56,623	100.00 %	\$11,204,107,260	100.00 %

ANNEX C – TRUST FINANCIAL STATEMENTS

1. The ANZLNZ Covered Bond Trust Financial Statements for the year ended 30 September 2017.
2. The ANZLNZ Covered Bond Trust Financial Statements for the year ended 30 September 2016.

**ANZNZ COVERED BOND TRUST
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 SEPTEMBER 2017

DIRECTORY

Trust Manager:	ANZ Capel Court Limited, a wholly owned subsidiary of Australia and New Zealand Banking Group Limited
Directors of Trust Manager:	D T Fisher Melbourne, Australia J W McLean Sydney, Australia G D Metcalf Sydney, Australia J E Scanlan Sydney, Australia
Registered Office of Trust Manager in New Zealand:	ANZ Capel Court Limited Level 25 ANZ Centre 23-29 Albert Street Auckland, New Zealand
Auditors:	KPMG Chartered Accountants Level 9 10 Customhouse Quay Wellington, New Zealand
Trustee & Covered Bond Guarantor:	ANZ NZ Covered Bond Trust Limited Level 9 34 Shortland Street Auckland, New Zealand
Security Trustee:	New Zealand Permanent Trustees Limited Level 9 34 Shortland Street Auckland, New Zealand
Beneficiary:	ANZ New Zealand Staff Foundation

TRUST MANAGER'S STATEMENT

In the opinion of ANZ Capel Court Limited, as Trust Manager for ANZNZ Covered Bond Trust (the Trust), the financial statements and accompanying notes of the Trust set out on pages 3 to 9:

- (i) fairly reflect the financial position of the Trust as at 30 September 2017 and its performance for the year ended on that date; and
- (ii) have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

Signed for and on behalf of ANZ Capel Court Limited, as Trust Manager of ANZNZ Covered Bond Trust:



30/11/17

_____ Date of issue

STATEMENT OF COMPREHENSIVE INCOME

	Year to 30/09/2017	Year to 30/09/2016
Note	\$000	\$000
Interest income	505,272	498,227
Interest expense	358,508	370,034
Net interest expense on interest rate swaps	5,194	17,218
Net interest income	141,570	110,975
Operating expenses	3 141,550	110,955
Total expenses	141,550	110,955
Profit before income tax	20	20
Income tax expense	4 -	-
Profit after income tax	20	20

There are no items of other comprehensive income.

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO BENEFICIARY

	Year to 30/09/2017	Year to 30/09/2016
	\$000	\$000
Opening net assets attributable to beneficiary	22	22
Profit after income tax	20	20
Distribution to beneficiary	(20)	(20)
Closing net assets attributable to beneficiary	22	22

STATEMENT OF FINANCIAL POSITION

	30/09/2017	30/09/2016
Note	\$000	\$000
Assets		
Cash at bank	20	20
Receivables	5 10,594,664	10,265,131
Total assets	10,594,684	10,265,151
Liabilities		
Payables and other liabilities	16,024	16,660
Interest rate swaps	79,550	121,031
Demand loan	6 5,424,413	3,782,938
Intercompany loans	6 5,074,675	6,344,500
Total liabilities	10,594,662	10,265,129
Net assets attributable to beneficiary	22	22

CASH FLOW STATEMENT

	Year to 30/09/2017 \$000	Year to 30/09/2016 \$000
Cash flows from operating activities		
Interest received	547,453	457,605
Net interest received / (paid) on interest rate swaps	(46,675)	23,388
Interest paid	(359,595)	(370,287)
Operating expenses	(141,163)	(110,686)
Net cash flows provided by operating activities	20	20
Cash flows from investing activities		
Net change in receivables	(371,650)	(2,676,650)
Net cash flows used in investing activities	(371,650)	(2,676,650)
Cash flows from financing activities		
Net change in demand loan	1,641,475	1,124,701
Net change in intercompany loan	(1,269,825)	1,551,949
Distribution to beneficiary	(20)	(20)
Net cash flows provided by financing activities	371,630	2,676,630
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the year	20	20
Cash and cash equivalents at end of the year	20	20
Reconciliation of profit after income tax to net cash flows provided by operating activities		
Profit after income tax	20	20
Deferrals or accruals of past or future operating cash receipts or payments		
Change in accrued interest receivable	42,117	(41,030)
Change in accrued interest payable	(42,568)	40,353
Increase in other accrued expenses	451	677
Net cash flows provided by operating activities	20	20

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

(i) Reporting entity

The Trust was established by Establishment Deed dated 11 February 2011, and is based in New Zealand. The Trust's principal activity is to acquire and hold a portfolio of high quality housing loans and related security originated by ANZ Bank New Zealand Limited (the Bank) as security for specific covered bond issuances by the Bank and its wholly owned subsidiary ANZ New Zealand (Int'l) Limited.

(ii) Statement of compliance

These financial statements have been prepared in accordance with the provisions of the Establishment Deed.

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

The principal accounting policies adopted in the preparation of the financial statements are set out below.

(iii) 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.

(iv) Basis of measurement

These financial statements have been prepared on a going concern basis in accordance with historical cost concepts.

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

The accounting policies adopted by the Trust are consistent with those adopted and disclosed in the prior year.

(vi) Presentation currency and rounding

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

(b) Income and expense recognition

(i) Interest income and interest expense

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.

(ii) Operating expenses

Operating expenses are recognised in the statement of comprehensive income on an accruals basis.

(c) Recognition and derecognition of financial assets and financial liabilities

(i) Receivables

Receivables are the rights to principal and interest cash flows relating to residential mortgages issued by the Bank. They are recognised and measured at amortised cost.

Receivables are regularly reviewed for any impairment loss. Credit loss provisions are raised for loans that are known to be impaired. Receivables are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the receivable and prior to the reporting date, and that the loss event (or events) has had an impact on the estimated future cash flows (recoverable amount) of the receivable.

(ii) Payables and other liabilities

Payables and other liabilities are carried at the amount expected to be required for settlement.

(iii) Interest rate swaps

Interest rate swaps are accounted for on an accrual basis. Further details of the accounting treatment of the interest rate swaps is provided in Note 2.

NOTES TO THE FINANCIAL STATEMENTS

(iv) Demand loan and intercompany loans

The demand and intercompany loans are recognised and measured at amortised cost.

(d) Presentation

(i) Offsetting of income and expenses

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

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument; or
- where gains and losses from a group of similar transactions are reported on a net basis.

(e) Other

(i) Accounting Standards not early adopted

The following standards and amendments were available for early adoption but have not been applied by the Trust in these financial statements. The Trust 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. SIGNIFICANT JUDGEMENT

The Trust uses interest rate swaps to mitigate the interest rate risk associated with the interest rate repricing mismatch between its portfolio of fixed and variable rate receivables and the demand and intercompany loans by swapping the interest rate flows received on the receivables for BKBM plus a margin. The Trust has determined that, as the underlying mortgages purchased from the Bank do not qualify for derecognition in the financial statements of the Bank, it would be more appropriate to accrual account for these instruments than to mark the derivative to market. The effect of this judgement is provided in note 9.

3. OPERATING EXPENSES

	Year to 30/09/2017 \$000	Year to 30/09/2016 \$000
Deferred consideration	119,930	91,896
Servicer fees	21,041	18,469
Trust manager's fee	316	317
Trustee & security trustee fee	122	132
Calculation manager fees	100	100
Audit of financial statements	41	41
Total operating expenses	141,550	110,955

Deferred consideration represents further consideration paid to the Seller after the acquisition date of the housing loans and related security, in accordance with the mortgage sale agreement.

The Calculation Manager performs, on behalf of the Trust, the Asset Coverage Test under the management agreement.

NOTES TO THE FINANCIAL STATEMENTS

4. INCOME TAX

The Trust is a financial institution special purpose vehicle for New Zealand income tax purposes.

For New Zealand income tax purposes the Bank is treated as carrying on the activities that the Trust carries on, and having a status, intention and purpose of the Trust and the Trust is treated as not carrying on those activities, and not having that status, intention and purpose. Consequently, there is no tax expense for the Trust.

5. RECEIVABLES

	30/09/2017 \$000	30/09/2016 \$000
Loans and advances	10,317,773	9,942,147
Interest and principal payments collected by the Bank but not yet returned to the Trust	276,891	322,984
Total receivables	10,594,664	10,265,131

Substantially all of the assets of the 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 Trust of issuances of covered bonds by the Bank, or its subsidiary ANZ New Zealand (Int'l) Limited, from time to time.

The Trust holds these assets to meet the Asset Coverage Test requirements under the Establishment Deed and programme obligations. To the extent that home loans held in the Trust's facility are found to no longer contribute value towards the Asset Coverage Test the Bank elects to remove them from the facility. Additional lending to existing customers incorporated in the facility is added into the facility generally on a quarterly basis.

6. RELATED PARTIES

Trust Manager's fees are paid to ANZ Capel Court Limited as Trust Manager. Deferred consideration and servicer fees are paid to the Bank as Servicer and Custodian.

Cash at bank, receivables, interest rate swaps, and the demand and intercompany loan are due from/to the Bank, which has the same ultimate parent (Australia and New Zealand Banking Group Limited) as ANZ Capel Court Limited.

The demand loan funding is provided by the Bank under a New Zealand dollar revolving credit facility. Under the terms of the loan agreement, the proceeds from advances of this facility may only be used for a limited number of pre-specified purposes. Interest is payable on the demand loan based on BKBM plus a margin, and the rate resets on a monthly basis. Receipts from repayments of the receivables are applied against the demand loan in accordance with the priority of payments specified in the Establishment Deed.

Each intercompany loan is the New Zealand dollar equivalent, on issue date, of each Covered Bond issued by ANZ New Zealand (Int'l) Limited. Interest is payable on each intercompany loan based on BKBM plus a fixed margin for each tranche, and the rate resets on a monthly basis. The intercompany loan has a maximum maturity date of December 2025.

During the year, the Trust purchased residential mortgage assets from the Bank. The purchase of these assets was funded by a corresponding advance under the demand loan and reinvestment of principal collections. Also, during the year, the Bank repurchased residential mortgage assets from the Trust. The proceeds from these repurchases were applied in accordance with the cash flow waterfall of the Trust. The amounts are shown in the table below.

	Year to 30/09/2017 \$m	Year to 30/09/2016 \$m
Face value of residential mortgage assets		
Purchased from the Bank	3,867	5,937
Sold to the Bank	585	491
Fair value of residential mortgage assets		
Purchased from the Bank	3,880	5,901
Sold to the Bank	587	484

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
	\$000	\$000	\$000	\$000	\$000	\$000
Assets						
Receivables	725,678	9,868,986	10,594,664	788,832	9,476,299	10,265,131
Liabilities						
Intercompany loans	1,568,461	3,506,214	5,074,675	1,269,825	5,074,675	6,344,500

8. FINANCIAL RISK MANAGEMENT

Exposure to risk arises from the Trust's operations as a financial intermediary. All aspects of risk are managed within a framework of policies, limits, control procedures, systems and reporting as set out by the Bank as Servicer. Risk exposures are monitored and controlled within predefined limits, with an internal reporting framework in place by the Bank as Servicer.

Interest rate risk

A portion of the Trust's receivables are at fixed rates while all of its funding is at variable rates. This results in an unmatched position, leading to material exposures to a shifting interest rate environment. The Trust utilises interest rate swaps to manage interest rate risk. As a result of the interest rate management mechanisms in place, the Trust has no material sensitivity to movements in interest rates.

Liquidity risk

Liquidity risk is the risk that the Trust is unable to meet its payment obligations on the demand and intercompany loans when they fall due.

The Trust is exposed to minimal liquidity risk as it is funded by variable rate loans, with a facility limit of \$15,000 million. The demand loan is callable by the Bank, but repayment is subject to amounts available under the cash flow waterfall and the asset coverage test having not being breached as a result of the repayment. Further, the Trust is able to sell selected receivables to make the repayment on the demand and intercompany loans and the Bank has the first right of repurchase.

The tables below provides residual contractual maturity analysis of financial liabilities at 30 September within relevant maturity groupings, based on the earliest date the Trust is able to realise the asset, or may be required to settle the liability. The amounts in the table represent undiscounted future principal and interest cash flows and may differ to amounts presented in the balance sheet.

Liquidity is not managed on the basis of expected profiles but rather on the basis described above.

	Total	At call or less than 3 months	3 to 12 months	1 to 5 years	Beyond 5 years
30/09/2017	\$000	\$000	\$000	\$000	\$000
Financial liabilities					
Payables and other liabilities (excluding interest)	4,524	4,524	-	-	-
Net interest rate swap interest received / (paid)	63,715	(78,638)	6,019	44,181	92,153
Demand loan	5,424,413	5,424,413	-	-	-
Intercompany loans	5,366,381	1,203,675	442,852	2,139,194	1,580,660
Total financial liabilities (including interest)	10,859,033	6,553,974	448,871	2,183,375	1,672,813

30/09/2016

	Total	At call or less than 3 months	3 to 12 months	1 to 5 years	Beyond 5 years
Financial liabilities					
Payables and other liabilities (excluding interest)	4,073	4,073	-	-	-
Net interest rate swap interest received / (paid)	847,991	(117,346)	32,442	296,849	636,046
Demand loan	3,782,938	3,782,938	-	-	-
Intercompany loans	7,058,159	1,318,035	136,891	2,784,982	2,818,251
Total financial liabilities (including interest)	11,693,161	4,987,700	169,333	3,081,831	3,454,297

NOTES TO THE FINANCIAL STATEMENTS

Currency risk

The Trust does not have foreign currency exposures.

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. Credit risk on the underlying mortgages that support the receivables is managed through the Asset Coverage Test which supports the issuance of Covered Bonds by the Bank. Loans which are more than three months in arrears will be given zero value under the Asset Coverage Test and accordingly the Bank is incentivised to buy back such loans.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Receivables, interest rate swaps, the demand loan and intercompany loans are valued using a discounted cash flow model, to which the principal inputs used in the determination of the fair value of the financial instruments are interest rates, which are observable in the market. There are no significant unobservable inputs in the valuation process, and the instruments are classified as level 2 instruments.

The carrying value of liquid assets and other financial liabilities is considered to approximate the fair value as they are short term in nature.

	30/09/2017		30/09/2016	
	Carrying amount \$000	Fair value \$000	Carrying amount \$000	Fair value \$000
Financial assets				
Liquid assets	20	20	20	20
Receivables	10,594,664	10,536,510	10,265,131	10,217,804
Total financial assets	10,594,684	10,536,530	10,265,151	10,217,824
Financial liabilities				
Payables and other liabilities	16,024	16,024	16,660	16,660
Interest rate swaps	79,550	25,103	121,031	66,433
Demand loan	5,424,413	5,424,413	3,782,938	3,782,938
Intercompany loans	5,074,675	5,155,150	6,344,500	6,346,891
Total financial liabilities	10,594,662	10,620,690	10,265,129	10,212,922

10. SUBSEQUENT EVENTS

Since 30 September 2017 the Bank repurchased residential mortgage assets from the Trust with a face value of \$151 million.





Independent Auditor's Report

To the Trustee of ANZNZ Covered Bond Trust

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of ANZNZ Covered Bond Trust (the Trust) on pages 3 to 9:

- i. present fairly in all material respects the Trust's financial position as at 30 September 2017 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 statement of financial position as at 30 September 2017;
- the statements of comprehensive income, changes in net assets attributable to beneficiary and cash flow 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 Trust 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.

Other than in our capacity as auditor we have no relationship with, or interests in, the Trust.



Use of this independent auditor's report

This independent auditor's report is made solely to the Trustee as a body. Our audit work has been undertaken so that we might state to the Trustee 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 Trustee as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.



Responsibilities of the Trustee for the financial statements

The Trustee, on behalf of the Trust, 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
Wellington

30 November 2017

**ANZNZ COVERED BOND TRUST
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

DIRECTORY

Trust Manager:	ANZ Capel Court Limited, a wholly owned subsidiary of Australia and New Zealand Banking Group Limited
Directors of Trust Manager:	D T Fisher Melbourne, Australia I MacGougan Sydney, Australia G D Metcalf Sydney, Australia
Registered Office of Trust Manager in New Zealand:	ANZ Capel Court Limited Level 25 ANZ Centre 23-29 Albert Street Auckland, New Zealand
Auditors:	KPMG Chartered Accountants Level 9 10 Customhouse Quay Wellington, New Zealand
Trustee & Covered Bond Guarantor:	ANZNZ Covered Bond Trust Limited Level 9 34 Shortland Street Auckland, New Zealand
Security Trustee:	New Zealand Permanent Trustees Limited Level 9 34 Shortland Street Auckland, New Zealand
Beneficiary:	ANZ New Zealand Staff Foundation

TRUST MANAGER'S STATEMENT

In the opinion of ANZ Capel Court Limited, as Trust Manager for ANZNZ Covered Bond Trust (the Trust), the financial statements and accompanying notes of the Trust set out on pages 3 to 10:

- (i) fairly reflect the financial position of the Trust as at 30 September 2016 and its performance for the year ended on that date; and
- (ii) have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

Signed for and on behalf of ANZ Capel Court Limited, as Trust Manager of ANZNZ Covered Bond Trust:

A handwritten signature in black ink, appearing to be 'A', is written over a horizontal line.

30 November 2016

Date of issue

STATEMENT OF COMPREHENSIVE INCOME

		Year to 30/09/2016	Year to 30/09/2015
	Note	\$000	\$000
Interest income		498,227	410,494
Interest expense		370,034	358,976
Net interest income earned / (expense incurred) on interest rate swaps		(17,218)	35,258
Net interest income		110,975	86,776
Operating expenses	3	110,955	86,756
Total expenses		110,955	86,756
Profit before income tax		20	20
Income tax expense	4	-	-
Profit after income tax		20	20

There are no items of other comprehensive income.

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO BENEFICIARY

		Year to 30/09/2016	Year to 30/09/2015
		\$000	\$000
Opening net assets attributable to beneficiary		22	22
Profit after income tax		20	20
Distribution to beneficiary		(20)	(20)
Closing net assets attributable to beneficiary		22	22

STATEMENT OF FINANCIAL POSITION

		30/09/2016	30/09/2015
	Note	\$000	\$000
Assets			
Cash at bank		20	20
Receivables	5	10,265,131	7,547,451
Total assets		10,265,151	7,547,471
Liabilities			
Payables and other liabilities		16,660	16,236
Interest rate swaps		121,031	80,425
Demand loan	6	3,782,938	2,658,237
Intercompany loans	6	6,344,500	4,792,551
Total liabilities		10,265,129	7,547,449
Net assets attributable to beneficiary		22	22

CASH FLOW STATEMENT

	Year to 30/09/2016 \$000	Year to 30/09/2015 \$000
Cash flows from operating activities		
Interest received	457,605	392,745
Net interest received / (paid) on interest rate swaps	23,388	54,311
Interest paid	(370,287)	(361,065)
Operating expenses	(110,686)	(85,971)
Net cash flows provided by operating activities	20	20
Cash flows from investing activities		
Net change in receivables	(2,676,650)	(235,556)
Net cash flows used in investing activities	(2,676,650)	(235,556)
Cash flows from financing activities		
Net change in demand loan	1,124,701	(644,627)
Net change in intercompany loan	1,551,949	880,183
Distribution to beneficiary	(20)	(20)
Net cash flows provided by financing activities	2,676,630	235,536
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the year	20	20
Cash and cash equivalents at end of the year	20	20

Reconciliation of profit after income tax to net cash flows provided by operating activities

Profit after income tax	20	20
Deferrals or accruals of past or future operating cash receipts or payments		
Change in accrued interest receivable	(41,030)	(17,276)
Change in accrued interest payable	40,353	16,964
Increase in other accrued expenses	677	312
Net cash flows provided by operating activities	20	20

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

(i) Reporting entity

The Trust was established by Establishment Deed dated 11 February 2011, and is based in New Zealand. The Trust's principal activity is to acquire and hold a portfolio of high quality housing loans and related security originated by ANZ Bank New Zealand Limited (the Bank) as security for specific covered bond issuances by the Bank and its wholly owned subsidiary ANZ New Zealand (Int'l) Limited.

(ii) Statement of compliance

These financial statements have been prepared in accordance with the provisions of the Establishment Deed.

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

The principal accounting policies adopted in the preparation of the financial statements are set out below.

(iii) 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.

(iv) Basis of measurement

These financial statements have been prepared on a going concern basis in accordance with historical cost concepts.

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

The accounting policies adopted by the Trust are consistent with those adopted and disclosed in the prior year.

(vi) Presentation currency and rounding

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

(b) Income and expense recognition

(i) Interest income and interest expense

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.

(ii) Operating expenses

Operating expenses are recognised in the statement of comprehensive income on an accruals basis.

(c) Recognition and derecognition of financial assets and financial liabilities

(i) Receivables

Receivables are the rights to principal and interest cash flows relating to residential mortgages issued by the Bank. They are recognised and measured at amortised cost.

Receivables are regularly reviewed for any impairment loss. Credit loss provisions are raised for loans that are known to be impaired. Receivables are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the receivable and prior to the reporting date, and that the loss event (or events) has had an impact on the estimated future cash flows (recoverable amount) of the receivable.

(ii) Payables and other liabilities

Payables and other liabilities are carried at the amount expected to be required for settlement.

(iii) Interest rate swaps

Interest rate swaps are accounted for on an accrual basis. Further details of the accounting treatment of the interest rate swaps is provided in Note 2.

NOTES TO THE FINANCIAL STATEMENTS

(iv) Demand loan and intercompany loans

The demand and intercompany loans are recognised and measured at amortised cost.

(d) Presentation

(i) Offsetting of income and expenses

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

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument; or
- where gains and losses from a group of similar transactions are reported on a net basis.

(e) 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)

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

2. SIGNIFICANT JUDGEMENT

The Trust uses interest rate swaps to mitigate the interest rate risk associated with the interest rate repricing mismatch between its portfolio of fixed and variable rate receivables and the demand and intercompany loans by swapping the interest rate flows received on the receivables for BKBM plus a margin. The Trust has determined that, as the underlying mortgages purchased from the Bank do not qualify for derecognition in the financial statements of the Bank, it would be more appropriate to accrual account for these instruments than to mark the derivative to market. The effect of this judgement is provided in note 9.

3. OPERATING EXPENSES

	Year to 30/09/2016 \$000	Year to 30/09/2015 \$000
Deferred consideration	91,896	72,607
Servicer fees	18,469	13,561
Trust manager's fee	317	316
Trustee & security trustee fee	132	131
Calculation manager fees	100	100
Audit of financial statements	41	41
Total operating expenses	110,955	86,756

Deferred consideration represents further consideration paid to the Seller after the acquisition date of the housing loans and related security, in accordance with the mortgage sale agreement.

The Calculation Manager performs, on behalf of the Trust, the Asset Coverage Test under the management agreement.

NOTES TO THE FINANCIAL STATEMENTS

4. INCOME TAX

The Trust is a financial institution special purpose vehicle for New Zealand income tax purposes.

For New Zealand income tax purposes the Bank is treated as carrying on the activities that the Trust carries on, and having a status, intention and purpose of the Trust and the Trust is treated as not carrying on those activities, and not having that status, intention and purpose. Consequently, there is no tax expense for the Trust.

5. RECEIVABLES

	30/09/2016 \$000	30/09/2015 \$000
Loans and advances	9,942,147	7,295,003
Interest and principal payments collected by the Bank but not yet returned to the Trust	322,984	252,448
Total receivables	10,265,131	7,547,451

Substantially all of the assets of the 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 Trust of issuances of covered bonds by the Bank, or its subsidiary ANZ New Zealand (Int'l) Limited, from time to time.

The Trust holds these assets to meet the Asset Coverage Test requirements under the Establishment Deed and programme obligations. To the extent that home loans held in the Trust's facility are found to no longer contribute value towards the Asset Coverage Test the Bank elects to remove them from the facility. Additional lending to existing customers incorporated in the facility is added into the facility generally on a quarterly basis.

6. RELATED PARTIES

Trust Manager's fees are paid to ANZ Capel Court Limited as Trust Manager. Deferred consideration and servicer fees are paid to the Bank as Servicer and Custodian.

Cash at bank, receivables, interest rate swaps, and the demand and intercompany loan are due from/to the Bank, which has the same ultimate parent (Australia and New Zealand Banking Group Limited) as ANZ Capel Court Limited.

The demand loan funding is provided by the Bank under a New Zealand dollar revolving credit facility. Under the terms of the loan agreement, the proceeds from advances of this facility may only be used for a limited number of pre-specified purposes. Interest is payable on the demand loan based on BKBM plus a margin, and the rate resets on a monthly basis. Receipts from repayments of the receivables are applied against the demand loan in accordance with the priority of payments specified in the Establishment Deed.

Each intercompany loan is the New Zealand dollar equivalent, on issue date, of each Covered Bond issued by ANZ New Zealand (Int'l) Limited. Interest is payable on each intercompany loan based on BKBM plus a fixed margin for each tranche, and the rate resets on a monthly basis. The intercompany loan has a maximum maturity date of December 2025.

During the year, the Trust purchased residential mortgage assets from the Bank. The purchase of these assets was funded by a corresponding advance under the demand loan and reinvestment of principal collections. Also, during the year, the Bank repurchased residential mortgage assets from the Trust. The proceeds from these repurchases were applied in accordance with the cash flow waterfall of the Trust. The amounts are shown in the table below.

	Year to 30/09/2016 \$m	Year to 30/09/2015 \$m
Face value of residential mortgage assets		
Purchased from the Bank	5,937	3,052
Sold to the Bank	491	790
Fair value of residential mortgage assets		
Purchased from the Bank	5,901	3,085
Sold to the Bank	484	797



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.

	30/09/2016			30/09/2015		
	within one year \$000	after more than one year \$000	Total \$000	within one year \$000	after more than one year \$000	Total \$000
Assets						
Receivables	788,832	9,476,299	10,265,131	577,099	6,970,352	7,547,451
Liabilities						
Intercompany loans	1,269,825	5,074,675	6,344,500	-	4,792,551	4,792,551

8. FINANCIAL RISK MANAGEMENT

Exposure to risk arises from the Trust's operations as a financial intermediary. All aspects of risk are managed within a framework of policies, limits, control procedures, systems and reporting as set out by the Bank as Servicer. Risk exposures are monitored and controlled within predefined limits, with an internal reporting framework in place by the Bank as Servicer.

Interest rate risk

A portion of the Trust's receivables are at fixed rates while all of its funding is at variable rates. This results in an unmatched position, leading to material exposures to a shifting interest rate environment. The Trust utilises interest rate swaps to manage interest rate risk. As a result of the interest rate management mechanisms in place, the Trust has no material sensitivity to movements in interest rates.

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

30/09/2016	Total \$000	Up to 3 months \$000	3 to 12 months \$000	1 to 2 years \$000	Beyond 2 years \$000	Not bearing interest \$000
Financial assets						
Cash at bank	20	20	-	-	-	-
Receivables	10,265,131	2,876,271	4,264,104	2,261,517	540,255	322,984
Total financial assets	10,265,151	2,876,291	4,264,104	2,261,517	540,255	322,984
Financial liabilities						
Payables and other liabilities	16,660	-	-	-	-	16,660
Interest rate swaps	121,031	(7,065,876)	4,264,104	2,261,517	540,255	121,031
Demand loan	3,782,938	3,782,938	-	-	-	-
Intercompany loans	6,344,500	6,344,500	-	-	-	-
Total financial liabilities	10,265,129	3,061,562	4,264,104	2,261,517	540,255	137,691
Interest sensitivity gap	22	(185,271)	-	-	-	185,293

NOTES TO THE FINANCIAL STATEMENTS

	Total \$000	Up to 3 months \$000	3 to 12 months \$000	1 to 2 years \$000	Beyond 2 years \$000	Not bearing interest \$000
30/09/2015						
Financial assets						
Cash at bank	20	20	-	-	-	-
Receivables	7,547,451	1,860,288	2,529,332	2,359,809	545,574	252,448
Total financial assets	7,547,471	1,860,308	2,529,332	2,359,809	545,574	252,448
Financial liabilities						
Payables and other liabilities	16,236	-	-	-	-	16,236
Interest rate swaps	80,425	(5,434,715)	2,529,332	2,359,809	545,574	80,425
Demand loan	2,658,237	2,658,237	-	-	-	-
Intercompany loans	4,792,551	4,792,551	-	-	-	-
Total financial liabilities	7,547,449	2,016,073	2,529,332	2,359,809	545,574	96,661
Interest sensitivity gap	22	(155,765)	-	-	-	155,787

Liquidity risk

The Trust is exposed to minimal liquidity risk as it is funded by variable rate loans, with a facility limit of \$15,000 million. The demand loan is callable by the Bank, but repayment is subject to amounts available under the cash flow waterfall and the asset coverage test having not being breached as a result of the repayment. Further, the Trust is able to sell selected receivables to make the repayment on the demand and intercompany loans and the Bank has the first right of repurchase.

The tables below present the Trust's financial assets and financial liabilities with contractual maturity groupings, based on the earliest date the Trust is able to realise the asset, or may be required to settle the liability. The amounts in the table represent undiscounted future principal and interest cash flows and may differ to amounts presented in the balance sheet. Liquidity is not managed on the basis of expected profiles but rather on the basis described above.

	Total \$000	At call or less than 3 months \$000	3 to 12 months \$000	1 to 5 years \$000	Beyond 5 years \$000
30/09/2016					
Financial assets					
Cash at bank	20	20	-	-	-
Receivables	15,254,065	603,216	636,670	3,112,186	10,901,993
Total financial assets (including interest)	15,254,085	603,236	636,670	3,112,186	10,901,993
Financial liabilities					
Payables and other liabilities (excluding interest)	4,073	4,073	-	-	-
Demand loan	3,782,938	3,782,938	-	-	-
Intercompany loans	7,058,159	1,318,035	136,891	2,784,982	2,818,251
Total financial liabilities (including interest)	10,845,170	5,105,046	136,891	2,784,982	2,818,251
Net interest rate swap interest received / (paid)	847,991	(117,346)	32,442	296,849	636,046
Net financial Instruments	5,256,906	(4,619,156)	532,221	624,053	8,719,788

30/09/2015

Financial assets					
Cash at bank	20	20	-	-	-
Receivables	11,934,727	460,930	507,512	2,523,162	8,443,123
Total financial assets (including interest)	11,934,747	460,950	507,512	2,523,162	8,443,123
Financial liabilities					
Payables and other liabilities (excluding interest)	3,396	3,396	-	-	-
Demand loan	2,658,237	2,658,237	-	-	-
Intercompany loans	5,404,511	54,005	162,469	3,985,118	1,202,919
Total financial liabilities (including interest)	8,066,144	2,715,638	162,469	3,985,118	1,202,919
Net interest rate swap interest received / (paid)	600,542	(79,492)	13,253	206,742	460,039
Net financial Instruments	4,469,145	(2,334,180)	358,296	(1,255,214)	7,700,243

NOTES TO THE FINANCIAL STATEMENTS

Currency risk

The Trust does not have foreign currency exposures.

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. Credit risk on the underlying mortgages that support the receivables is managed through the Asset Coverage Test which supports the issuance of Covered Bonds by the Bank. Loans which are more than three months in arrears will be given zero value under the Asset Coverage Test and accordingly the Bank is incentivised to buy back such loans.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Receivables, interest rate swaps, the demand loan and intercompany loans are valued using a discounted cash flow model, to which the principal inputs used in the determination of the fair value of the financial instruments are interest rates, which are observable in the market. There are no significant unobservable inputs in the valuation process, and the instruments are classified as level 2 instruments.

The carrying value of liquid assets and other financial liabilities is considered to approximate the fair value as they are short term in nature.

	30/09/2016		30/09/2015	
	Carrying amount \$000	Fair value \$000	Carrying amount \$000	Fair value \$000
Financial assets				
Liquid assets	20	20	20	20
Receivables	10,265,131	10,217,804	7,547,451	7,551,729
Total financial assets	10,265,151	10,217,824	7,547,471	7,551,749
Financial liabilities				
Payables and other liabilities	16,660	16,660	16,236	16,236
Interest rate swaps	121,031	66,433	80,425	59,573
Demand loan	3,782,938	3,782,938	2,658,237	2,658,237
Intercompany loans	6,344,500	6,346,891	4,792,551	4,847,971
Total financial liabilities	10,265,129	10,212,922	7,547,449	7,582,017

10. SUBSEQUENT EVENTS

Since 30 September 2016 the Trust has purchased cash flows associated with residential mortgage assets from the Bank with a face value of \$1,401 million, and the Bank repurchased residential mortgage assets from the Trust with a face value of \$59 million.



Independent auditor's report

To the Trustee of ANZNZ Covered Bond Trust

We have audited the accompanying financial statements of ANZNZ Covered Bond Trust (the "Trust") on pages 3 to 10. The financial statements comprise the statement of financial position as at 30 September 2016, the statement of comprehensive income, cash flows and changes in net assets attributable to beneficiary for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Trustee as a body. Our audit work has been undertaken so that we might state to the Trust's Trustee 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 Trust's Trustee as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the financial statements

The directors are responsible on behalf of the Trust 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Other than in our capacity as auditor we have no relationship with, or interests in the Trust.

Opinion

In our opinion, the financial statements on pages 3 to 10 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of ANZNZ Covered Bond Trust as at 30 September 2016 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

30 November 2016
Wellington

ANNEX D – INFORMATION MEMORANDUM

Pages D-1 to D-58 of this Offering Circular comprise an information memorandum (the "**Information Memorandum**") in respect of covered bonds which are not admitted to the Official List of the FCA or any other European Economic Area regulated market or offered to the public in the European Economic Area ("**Non-PD Covered Bonds**"). The Non-PD Covered Bonds shall only be offered pursuant to the Programme Agreement (as defined below), and only to non-U.S. persons in offshore transactions in reliance upon Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"). The Information Memorandum has not been reviewed or approved by the FCA and does not constitute a prospectus for the purposes of the Prospectus Directive.

The Information Memorandum is to be read in conjunction with the following sections of the Prospectus:

- the section entitled "Forward-Looking Statements" on pages 1 to 2;
- the section entitled "Enforcement of Liabilities; Service of Process" on page 3;
- the section entitled "Principal Characteristics of the ANZNZ Covered Bond Programme" on page 4;
- the section entitled "Available Information" on page 5;
- the section entitled "Presentation of Financial Information" on page 6;
- the section entitled "Documents Incorporated by Reference" on page 7;
- the section entitled "Structure Overview" on pages 8 to 14;
- the section entitled "Risk Factors" on pages 15 to 65;
- the section entitled "Programme Overview" on pages 66 to 73;
- the section entitled "ANZ Bank New Zealand Limited" on pages 74 to 78;
- the section entitled "Management" on pages 79 to 82;
- the section entitled "ANZ New Zealand (Int'l) Limited" on page 83;
- the section entitled "ANZ Bank New Zealand Limited's Mortgage Business" on pages 84 to 91;
- the section entitled "Selected Consolidated Financial Information" on pages 92 to 93;
- the section entitled "Form of the Covered Bonds" on pages 94 to 97;
- the section entitled "Use of Proceeds" on page 155;
- the section entitled "Regulation and Supervision" on pages 156 to 176;
- the section entitled "Australia and New Zealand Banking Group Limited" on pages 177 to 180;
- the section entitled "The ANZNZ Covered Bond Trust" on pages 181 to 182;
- the section entitled "Summary of the Principal Documents" on pages 183 to 220;
- the section entitled "Credit Structure" on pages 221 to 223;
- the section entitled "Cashflows" on pages 224 to 235;
- the section entitled "The Housing Loan Portfolio" on page 236;

- the section entitled "Legal Aspects of the Housing Loan Portfolio" on pages 237 to 244;
- the section entitled "Book Entry Clearance Systems" on pages 245 to 248;
- the section entitled "Taxation" on pages 249 to 251;
- the section entitled "Subscription and Sale and Transfer and Selling Restrictions" on pages 252 to 262;
- the section entitled "Legal Matters" on page 263;
- the section entitled "Independent Auditors" on page 263;
- the section entitled "General Information" on pages 264 to 267;
- the section entitled "Glossary" on pages 268 to 297;
- the section entitled "Annex A" on pages A-1 to A-203;
- the section entitled "Annex A-1" on pages A-1-1 to A-1-35;
- the section entitled "Annex B" on pages B-1 to B-6; and
- the section entitled "Annex C" on pages C-1 to C-25.

Each of the above sections of the Prospectus shall be deemed to be incorporated by reference in this Prospectus. Any supplements to the Prospectus shall also be deemed to be incorporated by reference in this Prospectus.

Under the €8,000,000,000 ANZNZ Covered Bond Programme (the "**Programme**") established by ANZ Bank New Zealand Limited ("**ANZ New Zealand**" or an "**Issuer**") and ANZ New Zealand (Int'l) Limited ("**ANZNIL**" or an "**Issuer**" and together with ANZ New Zealand, the "**Issuers**"). References to the "**Relevant Issuer**" shall, in relation to any Series or Tranche (as defined under the Terms and Conditions of the Non-PD Covered Bonds) of Non-PD Covered Bonds be references to the Issuer which is, or is intended to be, the Issuer of such Non-PD Covered Bonds as indicated in the applicable pricing supplement) on the Programme Date, the Issuers may from time to time issue Non-PD Covered Bonds denominated in any currency agreed between the Relevant Issuer, the Guarantor (as defined below) (in the case of Non-PD Covered Bonds issued by ANZNIL) and the Relevant Dealer(s) at the time of the issue in accordance with the prevailing market conditions.

The payment of all amounts owing by ANZNIL in respect of the Non-PD Covered Bonds issued by ANZNIL will be unconditionally and irrevocably guaranteed by ANZ New Zealand (the "**Guarantor**").

ANZNZ Covered Bond Trust Limited (the "**Non-PD Covered Bond Guarantor**") has guaranteed payments of interest and principal under the Non-PD Covered Bonds pursuant to a guarantee which is secured over the Housing Loans and the Related Security (as defined herein) and its other assets. Recourse against the Non-PD Covered Bond Guarantor under its guarantee is limited to the Housing Loans and the Related Security and its other assets.

The Non-PD Covered Bonds may be issued on a continuing basis to the Dealers specified under "**Programme Overview**" and any additional Dealer appointed under the Programme from time to time by the Issuers (each a "**Dealer**" and together the "**Dealers**") which appointment may be for a specific time or on an ongoing basis. References in this Offering Circular to the "Relevant Dealers" shall, in the case of an issue of Non-PD Covered Bonds being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Non-PD Covered Bonds.

Notice of the aggregate nominal amount of Non-PD Covered Bonds, interest (if any) payable in respect of Non-PD Covered Bonds, the issue price of the Non-PD Covered Bonds and any other terms and conditions not contained herein which are applicable to each Tranche of Non-PD Covered Bonds will be set out in a pricing supplement.

The Non-PD Covered Bonds are not protected accounts or deposit liabilities of the Issuers and, except as expressly stated in this Information Memorandum, are not insured or guaranteed by (i) the Crown or any governmental agency of New Zealand, (ii) the United States of America, the Federal Deposit Insurance Corporation or any other governmental agency of the United States or (iii) the government or any government agency of any other jurisdiction.

There are references in this Offering Circular to the credit ratings of the issuers and the Non-PD Covered Bonds. A credit rating is not a recommendation to buy, sell or hold the Non-PD Covered Bonds and may be subject to revision, suspension or withdrawal at any time by the relevant rating agency.

The Non-PD Covered Bonds 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. 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**"); (ii) a customer within the meaning of Directive 2002/92/EC, as amended ("**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Non-PD Covered Bonds or otherwise making them available to retail investors in the European Economic Area has been prepared and therefore offering or selling the Non-PD Covered Bonds or otherwise making them available to any retail investor in the European Economic Area may be unlawful under the PRIIPs Regulation.

MiFID II Product Governance / target market - The Pricing Supplement in respect of any Non-PD Covered Bonds 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 Non-PD Covered Bonds and which channels for distribution of the Non-PD Covered Bonds they consider are appropriate. Any person subsequently offering, selling or recommending the Non-PD Covered Bonds (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 Non-PD Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made by the relevant Dealer(s) in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Non-PD Covered Bonds is a "manufacturer" in respect of such Non-PD Covered Bonds, but otherwise neither the Arrangers nor the Dealers 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 an EU Member State. It is therefore not a "manufacturer" for the purposes of the MiFID Product Governance Rules 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 any target market assessment for the Non-PD Covered Bonds).

Benchmark Regulation: Interest and/or other amounts payable under the Covered Bonds 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 (the "**Benchmark Regulation**"). If any such reference rate does constitute such a benchmark, the Pricing Supplement 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 Pricing Supplement. 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 Pricing Supplement to reflect any change in the registration status of the administrator.

All references to "U.S. dollars" and "US\$" are to the currency of the United States of America, to "NZ\$", "New Zealand \$", "NZ dollars", "New Zealand dollars", "\$" and "New Zealand cents" are to the lawful currency of New Zealand, to "A\$" and "Australian dollars" are to the lawful currency of Australia, to "Sterling" and "£" are to the lawful currency of the United Kingdom and to "Euro" and "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

None of the Arrangers, the Dealers, the Non-PD Covered Bond Guarantor, the Agents, the Security Trustee, the Trust Manager or the Bond Trustee makes any representation to any investor in the Non-PD Covered Bonds regarding the legality of its investment under any applicable laws. Any investor in the Non-PD Covered Bonds should be able to bear the economic risk of an investment in the Non-PD Covered Bonds for an indefinite period of time.

Each potential investor in the Non-PD Covered Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Non-PD Covered Bonds, the merits and risks of investing in the Non-PD Covered Bonds and the information contained or incorporated by reference in this Information Memorandum or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Non-PD Covered Bonds and the impact the Non-PD Covered Bonds will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Non-PD Covered Bonds, including Non-PD Covered Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Non-PD Covered Bonds; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Non-PD Covered Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Non-PD Covered Bonds unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Non-PD Covered Bonds will perform under changing conditions, the resulting effects on the value of the Non-PD Covered Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

SCHEDULE A –

TERMS AND CONDITIONS OF THE NON-PD COVERED BONDS

The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into, and (as completed by the applicable Pricing Supplement in relation to a Tranche of Covered Bonds) apply to, each Global Covered Bond (as defined below) and each Definitive Covered Bond. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Covered Bond and Definitive Covered Bond.

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by ANZ New Zealand (Int'l) Limited ("**ANZNIL**"), whether acting through its head office or a branch, as specified in the relevant Pricing Supplement (an "**Issuer**") and guaranteed by ANZ Bank New Zealand Limited (the "**Guarantor**") or ANZ Bank New Zealand Limited ("**ANZ New Zealand**" and together with ANZNIL, the "**Issuers**") constituted by a trust deed (such trust deed as modified and/or supplemented and/or restated from time to time, the "**Bond Trust Deed**") dated 11 February 2011 (the "**Programme Date**") made between the Issuers, the Guarantor, ANZNZ Covered Bond Trust Limited as covered bond guarantor (the "**Covered Bond Guarantor**") and Deutsche Trustee Company Limited as bond trustee (in such capacity, the "**Bond Trustee**", which expression shall include any successor as Bond Trustee).

Save as provided for in Conditions 9 (*Events of Default and Enforcement*) and 11 (*Meetings of Covered Bondholders, Modification, Waiver, Substitution and Legislative Exchange*), references herein to the Covered Bonds shall be references to the "**Covered Bonds**" of this Series and shall mean:

- (a) in relation to any Covered Bonds represented by a global covered bond in bearer form (a "**Bearer Global Covered Bond**") or a global covered bond in registered form (a "**Registered Global Covered Bond**"), each of them a Global Covered Bond, units of the lowest Specified Denomination in the Specified Currency;
- (b) any Global Covered Bond representing a Tranche of Covered Bonds;
- (c) any Definitive Covered Bonds in bearer form ("**Bearer Definitive Covered Bonds**") issued in exchange for a Bearer Global Covered Bond; and
- (d) any Definitive Covered Bonds in registered form ("**Registered Definitive Covered Bonds**") (whether or not issued in exchange for a Registered Global Covered Bond).

The Covered Bonds, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an amended and restated principal agency agreement (such amended and restated principal agency agreement as further amended and/or supplemented and/or restated from time to time the Principal Agency Agreement) dated 23 August 2012 and made between the Issuers, the Covered Bond Guarantor, the Guarantor, the Bond Trustee and Deutsche Bank AG, London Branch as principal paying agent and agent bank (in such capacity, the "**Principal Paying Agent**", which expression shall include any successor principal paying agent), Deutsche Bank Trust Company Americas as U.S. paying agent (in such capacity, the U.S. Paying Agent and together with the Principal Paying Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents), Deutsche Bank AG, London Branch as exchange agent (in such capacity, the "**Exchange Agent**", which expression shall include any successor exchange agent), Deutsche Bank Luxembourg S.A. as Luxembourg registrar (in such capacity, the "**Luxembourg Registrar**", which expression shall include any successor Luxembourg registrar), Deutsche Bank Trust Company Americas as U.S. registrar (in such capacity, the "**U.S. Registrar**", which expression shall include any successor U.S. registrar, and together with the Luxembourg Registrar, the "**Registrars**"), and Deutsche Bank Luxembourg S.A. and Deutsche Bank Trust Company Americas as transfer agents (in such capacity, each a "**Transfer Agent**" and together the "**Transfer Agents**", which expression shall include any additional or successor transfer agents). As used herein, "**Agents**" shall mean the Paying Agents, the Exchange Agent, the Registrars and the Transfer Agent, which expression shall include any additional or successor agents).

The Pricing Supplement may specify any other agency agreement that applies to Covered Bonds, Receipts and Coupons issued by the Issuers.

Interest-bearing Bearer Definitive Covered Bonds have interest coupons ("**Coupons**") and, in the case of Covered Bonds which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Bearer Definitive Covered Bonds repayable in instalments have receipts ("**Receipts**") for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Covered Bonds (which include Registered Global Covered Bonds and/or Registered Definitive Covered Bonds as the case may be) and Global Covered Bonds do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Covered Bond (or the relevant provisions thereof) are attached to or endorsed on this Covered Bond and complete these terms and conditions (the "**Conditions**"). References to the "**applicable Pricing Supplement**" are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Covered Bond.

The Bond Trustee acts as trustee for the holders for the time being of the Covered Bonds (the "**Covered Bondholders**", which expression shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below), the holders of the Receipts (the "**Receiptholders**") and the holders of the Coupons (the "**Couponholders**", which expression shall, unless the context otherwise requires, include the holders of the Talons), and for holders of each other Series of Covered Bonds in accordance with the provisions of the Bond Trust Deed.

As used herein, "**Tranche**" means Covered Bonds which are identical in all respects (including as to listing or admission to trading) and "**Series**" means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are: (i) expressed to be consolidated and form a single series; and (ii) identical in all respects (including as to listing or admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Guarantor has (in respect of Covered Bonds issued by ANZNIL), in the Bond Trust Deed, unconditionally guaranteed the due and punctual payment of all amounts (including default interest) due from ANZNIL under or in respect of such Covered Bonds and the Bond Trust Deed, as and when the same shall become due and payable.

The Covered Bond Guarantor has, in the Bond Trust Deed, irrevocably and unconditionally guaranteed the due and punctual payment of Guaranteed Amounts in respect of the Covered Bonds as and when the same shall become due for payment on certain dates in accordance with the Bond Trust Deed ("**Due for Payment**"), but only after service of a Notice to Pay on the Covered Bond Guarantor following an Issuer Event of Default and service by the Bond Trustee of an Issuer Acceleration Notice on the Relevant Issuer and the Guarantor or the occurrence of Covered Bond Guarantor Event of Default and service by the Bond Trustee of a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor.

The security for the obligations of the Covered Bond Guarantor under the Covered Bond Guarantee and the other Programme Documents to which it is a party has been created in and pursuant to, and on the terms set out in, a security agreement governed by New Zealand law (such security as amended and/or supplemented and/or restated from time to time, the "**Security Deed**") dated the Programme Date and made between the Covered Bond Guarantor, the Issuers, the Guarantor, the Bond Trustee, New Zealand Permanent Trustees Limited (the "**Security Trustee**") and certain other Secured Creditors.

These Conditions include summaries of, and are subject to, the provisions of the Bond Trust Deed, the Security Deed and the Principal Agency Agreement (as applicable).

Copies of the Bond Trust Deed, the Security Deed, the Definitions Schedule (as defined below), the Principal Agency Agreement and each of the other Programme Documents are available for inspection and collection free of charge during normal business hours at the registered office for the time being of the Bond Trustee being at the Programme Date at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom and at the specified office of the Principal Paying Agent. Copies of the applicable Pricing Supplement for all Covered Bonds of each Series are obtainable during normal business hours at the specified office of the Principal Paying Agent and any Covered Bondholder must produce evidence satisfactory to the Issuer and the Bond Trustee or, as the case may

be, the relevant Paying Agent as to its holding of Covered Bonds and identity. Copies of the applicable Pricing Supplement for all Covered Bonds of each Series admitted to trading on the regulated market of the London Stock Exchange will be published on the website of the London Stock Exchange through a regulatory information service. The Covered Bondholders, the Receiptholders and the Couponholders are deemed to have notice of, are bound by, and are entitled to the benefit of, all the provisions of, and definitions contained in, the Bond Trust Deed, the Security Deed, the Definitions Schedule, the Principal Agency Agreement, each of the other Programme Documents and the applicable Pricing Supplement which are applicable to them and to have notice of each Pricing Supplement relating to each other Series.

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Conditions shall bear the meanings given to them in the Bond Trust Deed, the applicable Pricing Supplement and/or the ANZNZ covered bond trust definitions schedule made between the parties to the Programme Documents on the Programme Date (the "**Definitions Schedule**") (as the same may be amended and/or supplemented and/or restated from time to time), a copy of each of which may be obtained as described above. In the event of inconsistency between the Bond Trust Deed and the Definitions Schedule, the Bond Trust Deed will prevail.

1. **Form, Denomination and Title**

The Covered Bonds are in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of Definitive Covered Bonds (being Bearer Definitive Covered Bond(s) and/or, as the context may require, Registered Definitive Covered Bond(s)), serially numbered, in the Specified Currency and the Specified Denomination(s) specified in the applicable Pricing Supplement. Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination and Bearer Covered Bonds may not be exchanged for Registered Covered Bonds and *vice versa*.

This Covered Bond may be a Fixed Rate Covered Bond, a Floating Rate Covered Bond or a Zero Coupon Covered Bond, depending upon the Interest Basis shown in the applicable Pricing Supplement, and subject, in each case, to confirmation from the Rating Agencies that the then current ratings of any outstanding Series of Covered Bonds will not be adversely affected by the issuance of this Covered Bond.

This Covered Bond may be an Instalment Covered Bond, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement and subject to confirmation from the Rating Agencies that the then current rating of any outstanding Series of Covered Bonds will not be adversely affected by the issuance of this Covered Bond.

Bearer Definitive Covered Bonds are issued with Coupons attached, unless they are Zero Coupon Covered Bonds, in which case references to Coupons and Couponholders in these Conditions are not applicable.

Bearer Definitive Covered Bonds are issued with Receipts, unless they are not Instalment Covered Bonds, in which case references to Receipts and Receiptholders in these Conditions are not applicable.

Subject as set out below, title to the Bearer Covered Bonds, Receipts and Coupons will pass by delivery and title to the Registered Covered Bonds will pass upon registration of transfers in accordance with the provisions of the Principal Agency Agreement. The Issuers, the Guarantor, the Covered Bond Guarantor, the Paying Agents, the Security Trustee and the Bond Trustee will (except as otherwise required by law) deem and treat the bearer of any Bearer Covered Bond, Receipt or Coupon and the registered holder of any Registered Covered Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Covered Bond, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Covered Bonds is represented by a Global Covered Bond held on behalf of, or, as the case may be, registered in the name of a common depository (in the case of a CGCB) or common safekeeper (in the case of a NGCB) for Euroclear Bank S.A./N.V.

("Euroclear") and/or Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error and any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including, without limitation, Euroclear's EUCLID or Clearstream's Cedcom system) in accordance with its usual procedures and in which the holder of a particular nominal amount of the Covered Bonds is clearly identified with the amount of such holding) shall be treated by the Issuer, the Guarantor, (in the case of Covered Bonds issued by ANZNIL) the Covered Bond Guarantor, the Paying Agents, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds for all purposes other than with respect to the payment of principal or interest or other amounts on such nominal amount of such Covered Bonds, for which purpose the bearer of the relevant Global Covered Bond or the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer, the Guarantor, the Covered Bond Guarantor, any Paying Agent, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expression "**Covered Bondholder**" and related expressions shall be construed accordingly.

Covered Bonds which are represented by a Global Covered Bond will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits (but not in the case of any NGCB or any Global Covered Bond held under the NSS), be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Pricing Supplement.

2. **Transfers of Registered Covered Bonds**

(a) ***Transfers of interests in Registered Global Covered Bonds***

Transfers of beneficial interests in Regulation S Global Covered Bonds (as defined below) (the "**Registered Global Covered Bonds**") will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be exchangeable for Covered Bonds in definitive form or for a beneficial interest in another Registered Global Covered Bond only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg and in accordance with the terms and conditions specified in the Principal Agency Agreement.

(b) ***Transfers of Registered Covered Bonds in definitive form***

Subject as provided in Condition 2(g) below, upon the terms and subject to the conditions set forth in the Principal Agency Agreement, a Registered Covered Bond in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer: (i) the holder or holders must: (A) surrender the Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered Covered Bond) at the specified office of the relevant Registrar or, as the case may be, the relevant Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing; and (B) complete and deposit such other certifications as may be required by the relevant Registrar or the relevant Transfer Agent; and (ii) the relevant Registrar or the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will

be subject to such reasonable regulations as the relevant Issuer, the relevant Registrar and the relevant Transfer Agent may from time to time prescribe (the initial such regulations being set out in Schedule 5 to the Principal Agency Agreement).

Subject as provided above, the relevant Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Covered Bond in definitive form of a like aggregate nominal amount to the Registered Covered Bond (or the relevant part of the Registered Covered Bond) transferred. In the case of the transfer of part only of a Registered Covered Bond in definitive form, a new Registered Covered Bond in definitive form in respect of the balance of the Registered Covered Bond not transferred will be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the address specified by the transferor.

(c) ***Registration of transfer upon partial redemption***

In the event of a partial redemption of Covered Bonds under Condition 5 (*Redemption and Purchase*), the Issuer shall not be required to register the transfer of any Registered Covered Bond, or part of a Registered Covered Bond, called for partial redemption.

(d) ***Costs of registration***

Covered Bondholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, Tax or other governmental charge that may be imposed in relation to the registration.

(e) ***Transfers of interests in Regulation S Global Covered Bonds***

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Covered Bond to a transferee in the United States or who is a U.S. person will only be made:

- (i) upon receipt by the relevant Registrar of a written certification substantially in the form set out in the Principal Agency Agreement, amended as appropriate (a "**Transfer Certificate**"), copies of which are available from the specified office of the relevant Registrar or any Transfer Agent, from the transferor of the Covered Bond or beneficial interest therein to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or
- (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Upon the transfer, exchange or replacement of Legended Covered Bonds, or upon specific request for removal of the Legend, the relevant Registrar shall deliver only Legended Covered Bonds or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(f) ***Exchanges and transfers of Registered Covered Bonds generally***

Holders of Registered Covered Bonds in definitive form may exchange such Covered Bonds for interests in a Registered Global Covered Bond of the same type at any time.

(g) **Definitions**

In the Conditions, the following expressions shall have the following meanings:

"**CGCB**" means a Temporary Bearer Global Covered Bond or a Permanent Bearer Global Covered Bond, in either case in respect of which the applicable Pricing Supplement specify that it is not a NGCB;

"**Distribution Compliance Period**" means the period that ends 40 days after the later of the commencement of the offering and the Issue Date;

"**Legended Covered Bond**" means Registered Covered Bonds (whether in definitive form or represented by a Registered Global Covered Bond) sold in private transactions to QIBs in accordance with the requirements of Rule 144A which bear a legend specifying certain restrictions on transfer (a "**Legend**");

"**NGCB**" means a Temporary Bearer Global Covered Bond or a Permanent Bearer Global Covered Bond, in either case in respect of which the applicable Pricing Supplement specify that it is a new global covered bond;

"**QIB**" means a qualified institutional buyer within the meaning of Rule 144A;

"**Regulation S**" means Regulation S under the Securities Act;

"**Regulation S Global Covered Bond**" means a Registered Global Covered Bond representing Covered Bonds sold outside the United States in reliance on Regulation S;

"**Rule 144A**" means Rule 144A under the Securities Act;

"**Securities Act**" means the United States Securities Act of 1933, as amended.

3. **Status of the Covered Bonds, the Guarantee and the Covered Bond Guarantee**

(a) **Status of the Covered Bonds**

The Covered Bonds and any relative Receipts and Coupons constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* without any preference or priority among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (other than any obligation preferred by mandatory provisions of applicable law) from time to time outstanding.

(b) **Status of the Guarantee**

The due and punctual payment of principal and interest in respect of the Covered Bonds issued by ANZNIL and all other monies (including default interest) payable by ANZNIL under or pursuant to the Bond Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor pursuant to a guarantee (the "**Guarantee**") as set out in the Bond Trust Deed. The obligations of the Guarantor under the Guarantee constitute its direct, unconditional, unsubordinated and unsecured obligations and rank at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Guarantor, other than any obligations preferred by mandatory provisions of applicable law.

(c) **Status of the Covered Bond Guarantee**

The payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment has been unconditionally and irrevocably guaranteed by the Covered Bond Guarantor (the "**Covered Bond Guarantee**") as set out in the Bond Trust Deed. However, the Covered Bond Guarantor shall have no obligation under the Covered Bond Guarantee to pay any Guaranteed Amounts until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer and the Guarantor of an Issuer Acceleration Notice

and service by the Bond Trustee on the Covered Bond Guarantor of a Notice to Pay or, if earlier, following the occurrence of a Covered Bond Guarantor Event of Default and service by the Bond Trustee of a Covered Bond Guarantee Acceleration Notice. The obligations of the Covered Bond Guarantor under the Covered Bond Guarantee are (following an Issuer Event of Default, service of an Issuer Acceleration Notice and service of a Notice to Pay or a Covered Bond Guarantor Event of Default and service of a Covered Bond Guarantee Acceleration Notice), direct, unconditional (subject as provided in Condition 16 (*Limited Recourse and non-petition*)) and unsubordinated obligations of the Covered Bond Guarantor, which are secured as provided in the Security Deed.

Any payment made by the Covered Bond Guarantor under the Covered Bond Guarantee shall (unless such obligation shall have been discharged as a result of the payment of Excess Proceeds to the Bond Trustee pursuant to Condition 9 (*Events of Default and Enforcement*)) discharge pro tanto the obligations of the Issuer and the Guarantor (in the case of Covered Bonds issued by ANZNIL) in respect of such payment under the Covered Bonds, Receipts and Coupons and the Guarantee except where such payment has been declared void, voidable or otherwise recoverable in whole or in part and recovered from the Bond Trustee or the Covered Bondholders.

4. **Interest and other Calculations**

(a) ***Interest on Fixed Rate Covered Bonds***

- (i) Each Covered Bond where the Interest Basis in the applicable Pricing Supplement is specified to be a Fixed Rate (a "**Fixed Rate Covered Bond**") bears interest on its Principal Amount Outstanding from, and including, the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrears on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the applicable Pricing Supplement as specified Interest Payment Dates or, if no Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the applicable Pricing Supplement as the specified Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
- (ii) If a Fixed Coupon Amount or a Broken Amount is specified in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the applicable Pricing Supplement.
- (iii) *Calculation of Interest Amount:* The Interest Amount payable in respect of each Covered Bond for any period for which a Fixed Coupon Amount or Broken Amount is not specified in the applicable Pricing Supplement shall be calculated by applying the Rate of Interest to the Calculation Amount for such Covered Bond, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest unit of the Specified Currency (with halves being rounded up), save in the case of Yen, which shall be rounded down to the nearest Yen, and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Covered Bond divided by the Calculation Amount. For this purpose, a "**unit**" means, in the case of any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of Euro, means 0.01 Euro, as the case may be.
- (iv) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then that date will be adjusted in accordance with the Business Day Convention specified in the applicable Pricing Supplement.

(b) ***Interest on Floating Rate Covered Bonds***

- (i) *Interest Payment Dates:* Each Covered Bond where the Interest Basis in the applicable Pricing Supplement is specified to be Floating Rate (a "**Floating Rate Covered Bond**") bears interest on its outstanding Principal Amount Outstanding from, and including, the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrears on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the applicable Pricing Supplement as specified Interest Payment Dates or, if no Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the applicable Pricing Supplement as the specified Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
- (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then that date will be adjusted in accordance with the Business Day Convention specified in the applicable Pricing Supplement.
- (iii) *Rate of Interest for Floating Rate Covered Bonds:* The Rate of Interest in respect of Floating Rate Covered Bonds, other than in the case of BBSW Covered Bonds or BKBM Covered Bonds, provisions in respect of which are set out in Condition 4(c) and Condition 4(d) below, for each Interest Accrual Period shall be determined in the manner specified in the applicable Pricing Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the applicable Pricing Supplement.

(A) ISDA Determination for Floating Rate Covered Bonds

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Principal Paying Agent as a rate equal to the relevant ISDA Rate. For the purposes of this subparagraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent or other person specified in the applicable Pricing Supplement under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (y) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (z) the relevant Reset Date is the day specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**", and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate/Reference Bank Determination for Floating Rate Covered Bonds

- (x) If Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be subject to Condition 4(k) (*Benchmark Replacement*) (as determined by the Principal Paying Agent), either:

- (I) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (II) the arithmetic mean of the offered quotations,

for the Reference Rate in each case appearing on the Relevant Screen Page at the Relevant Time on the Interest Determination Date;

- (y) if sub-paragraph (x)(I) applies and no Reference Rate appears on the Relevant Screen Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (x)(II) applies and fewer than two offered quotations appear on the Relevant Screen Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the offered quotations that each of the Reference Banks is quoting (or such of them, being at least two, as are so quoting) to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date for deposits of the Specified Currency for a term equal to the relevant Interest Accrual Period as determined by the Principal Paying Agent; and
- (z) if paragraph (y) above applies and the Principal Paying Agent determines that fewer than two Reference Banks are so quoting the Reference Rate, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage), which the Principal Paying Agent determines to be the nearest equivalent to the Reference Rate, in respect of deposits of the Specified Currency that at least two out of five leading banks selected by the Principal Paying Agent (after consultation with the Issuer) in the Principal Financial Centre of the country of the Specified Currency, in each case as selected by the Principal Paying Agent (after consultation with the Issuer), are quoting at or about the Relevant Time for a period commencing on the Effective Date equivalent to the relevant Interest Accrual Period to leading banks carrying on business in (i) Europe, or (ii) (if the Principal Paying Agent determines that fewer than two of such banks are so quoting to such leading banks in Europe) the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to such leading banks, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(c) ***Interest on BBSW Covered Bonds***

If a Covered Bond is specified to be a BBSW Covered Bond, the Rate of Interest for each Interest Accrual Period will be determined by the Calculation Agent on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

- (i) the Rate of Interest shall be the rate (expressed as an interest rate per annum and rounded up, if necessary, to the fourth decimal place) for prime bank eligible securities having a tenor approximately equal to the relevant Interest Accrual Period which is designated as the "AVG MID" on the Reuters Screen "BBSW" Page (or its successor or replacement page) ("**BBSW Reuters Page**") at or about the Relevant Time (or such other time at which such rate customarily appears on that page (the "**Publication Time**")) on the relevant Interest Determination Date in respect of such Interest Accrual Period;
- (ii) if, by 10.30 a.m. Sydney time (or such other time that is 15 minutes after the then prevailing Publication Time), on any Interest Determination Date, such rate does not appear on the BBSW Reuters Page, the Rate of Interest means the rate determined by

the Calculation Agent on the Interest Determination Date in good faith, having regard, to the extent possible, to:

- (A) the rates otherwise bid and offered at or around 10.30 a.m. Sydney time (or such other time that is 15 minutes after the then prevailing Publication Time) on the Interest Determination Date for prime bank eligible securities having a tenor approximately equal to the relevant Interest Accrual Period; and
 - (B) if bid and offer rates at or around 10.30 a.m. Sydney time (or such other time that is 15 minutes after the then prevailing Publication Time) on the Interest Determination Date for prime bank eligible securities having a tenor approximately equal to the relevant Interest Accrual Period are not otherwise available, the rates otherwise bid and offered at or around 10.30 a.m. Sydney time (or such other time that is 15 minutes after the then prevailing Publication Time) on the Interest Determination Date for funds having a tenor approximately equal to the relevant Interest Accrual Period; and
- (iii) if, on any Interest Determination Date, the Rate of Interest cannot be determined by reference to any of sub-paragraphs (i) and (ii) above, the Rate of Interest for the relevant Interest Accrual Period shall be the Rate of Interest in effect for the last preceding Interest Accrual Period (after readjustment for any difference between any Margin or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(d) ***Interest on BKBM Covered Bonds***

If a Covered Bond is specified to be a BKBM Covered Bond, the Rate of Interest for each Interest Accrual Period will be determined by the Calculation Agent on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

- (i) the Rate of Interest shall be the Bank Bill reference rate (rounded, if necessary, to the fifth decimal place) administered by the New Zealand Financial Markets Association (or any other person which takes over the administration of that rate) as set forth on the display page designated on page "BKBM" on the Reuters screen service ("**BKBM Reuters Page**"), or such other information service as may replace the BKBM Reuters Page, at or about the Relevant Time (or such other time at which such rate customarily appears on that page (the "**Publication Time**")) on the relevant Interest Determination Date in respect of such Interest Accrual Period;
- (ii) if, by 11.00 a.m. Wellington time (or such other time that is 15 minutes after the then prevailing Publication Time), on any Interest Determination Date, such rate does not appear on the BKBM Reuters Page, the Rate of Interest means the rate determined by the Calculation Agent on the Interest Determination Date in good faith, having regard, to the extent possible, to the rates otherwise bid and offered at or around 11.00 a.m. Wellington time (or such other time that is 15 minutes after the then prevailing Publication Time) on the Interest Determination Date by participants in the BKBM trading window for New Zealand bank bills having a tenor approximately equal to the relevant Interest Accrual Period;
- (iii) if, on any Interest Determination Date, the Rate of Interest cannot be determined by reference to any of sub-paragraphs (i) and (ii) above, the Rate of Interest for the relevant Interest Accrual Period shall be the Rate of Interest in effect for the last preceding Interest Accrual Period (after readjustment for any difference between any Margin or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(e) ***Zero Coupon Covered Bonds***

Where a Covered Bond, the Interest Basis of which is specified in the applicable Pricing Supplement to be Zero Coupon (a Zero Coupon Covered Bond), is repayable prior to the

Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Covered Bond, unless otherwise specified in the applicable Pricing Supplement. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Covered Bond shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield.

(f) ***Accrual of Interest***

Interest shall cease to accrue on each Covered Bond on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (after, as well as before, judgement) at the Rate of Interest in the manner provided in this Condition 4 to the Relevant Date.

(g) ***Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding***

(i) If any Margin is specified in the applicable Pricing Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 4(b), Condition 4(c) or Condition 4(d) above, by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph;

(ii) If any Maximum or Minimum Interest Rate, Instalment Amount or Redemption Amount is specified in the applicable Pricing Supplement, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be. Unless otherwise stated in the applicable Pricing Supplement the Minimum Rate of Interest shall be deemed to be zero;

(iii) Subject to the requirements of applicable law, for the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven decimal places (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "unit" means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Euro, means 0.01 Euro, as the case may be.

(h) ***Calculations***

Unless otherwise specified in the applicable Pricing Supplement, the amount of interest payable in respect of any Covered Bond for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding Principal Amount Outstanding of such Covered Bond by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in the applicable Pricing Supplement in respect of such period, in which case the amount of interest payable in respect of such Covered Bond for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

(i) ***Determination and Publication of Rate of Interest, Interest Amounts, Final Redemption Amounts and Instalment Amounts***

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Principal Paying Agent may be required to calculate any rate or amount or Instalment Amount, obtain any quotation or make any determination or calculation,

it shall determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of the Covered Bonds for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Bond Trustee, the Issuer, the Guarantor (if applicable), each of the Paying Agents, the Covered Bondholders in accordance with Condition 14 (*Notices*), the Registrars, any other Calculation Agent appointed in respect of the Covered Bonds that is to make a further calculation upon receipt of such information and, if the Covered Bonds are listed on a stock exchange (and/or admitted to listing, trading and/or quotation on any other listing authority, stock exchange and/or quotation system) and the rules of such listing authority, stock exchange and/or quotation system so require, such listing authority, stock exchange and/or quotation system as soon as possible after their determination but in no event later than (y) the commencement of the relevant Interest Accrual Period, if determined prior to such time in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (z) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Accrual Period is subject to adjustment pursuant to Condition 4(a)(iv) (*Interest on Fixed Rate Covered Bonds*) or Condition 4(b)(ii) (*Interest on Floating Rate Covered Bonds*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Accrual Period. If the Calculation Amount is less than the minimum Specified Denomination, the Principal Paying Agent shall not be obligated to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Covered Bond having the minimum Specified Denomination. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Principal Paying Agent(s) or Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

(j) ***Calculation Agent and Reference Banks***

The Issuer and, if applicable, the Guarantor shall procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and one or more Calculation Agents if provision is made for them in the applicable Pricing Supplement and for so long as any Covered Bond is outstanding (as defined in the Agency Agreement). If any Reference Bank (acting through its relevant offices) is unable or unwilling to continue to act as a Reference Bank, then the Issuer or, failing which and if applicable, the Guarantor shall appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place.

(k) ***Benchmark Replacement***

In addition, notwithstanding the provisions above in Condition 4(b) if the Issuer (in consultation with the Principal Paying Agent (or the person specified in the applicable Pricing Supplement 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 Reference Rate affected by the Benchmark Disruption Event, then the Issuer will appoint an Independent Advisor and the following provisions shall apply:

- (i) the Principal Paying Agent shall use as the Reference Rate for the relevant Interest Period or Interest Accrual Period a substitute or successor rate that has been determined at the request of the Issuer by the Independent Advisor (acting in good faith and in a commercially reasonable manner) in its sole discretion, after consulting such sources as it deems reasonable, to be (a) the industry-accepted successor rate to the Reference Rate or (b) if no such industry accepted successor rate exists, the most comparable substitute or successor rate to the relevant Reference Rate and which has been notified to the Principal Paying Agent by the Independent Advisor; and

- (ii) if the Independent Advisor has determined a substitute or successor rate and notified the Principal Paying Agent in accordance with the foregoing, the Independent Advisor may determine (acting in good faith and in a commercially reasonable manner) in its sole discretion, after consulting any source it deems reasonable, the Business Day Convention, the definitions of Business Day, Day Count Fraction, Relevant Screen Page, Relevant Time, Reference Rate 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 Reference Rate, in a manner that is consistent with industry-accepted practices for such substitute or successor rate and shall notify the Principal Paying Agent of such determination; and
- (iii) if the Independent Advisor is unable to determine a substitute or successor rate in accordance with Condition 4(k)(i), 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 Covered Bonds on the previous Interest Determination Date or in effect for the last preceding Interest Accrual Period (after readjustment for any difference between any Margin 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 4(k)(iii) 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 Condition 4(k) (*Benchmark Replacement*)).

For the purposes of this Condition 4(k) (*Benchmark Replacement*):

"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" occurs if:

- (i) the relevant Reference Rate specified in the relevant Pricing Supplement has ceased to be published on the Relevant Screen Page as a result of such benchmark ceasing to be calculated or administered; or
- (ii) the Issuer determines after consulting with the Independent Adviser that, a change in the generally accepted market practice in the international debt capital markets to refer to a Reference Rate is endorsed in a public statement by a Relevant Nominating Body, the Bank of England, the Financial Conduct Authority 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 Rates, despite the continued existence of the applicable Reference Rate; and

"Relevant Nominating Body" means, in respect of a Reference Rate:

- (i) the central bank for the currency to which the Reference Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate; or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the Reference Rate relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate, (c) a group of the aforementioned central banks or other supervisory authorities, or (d) the Financial Stability Board or any part thereof.

(l) ***Determination by Independent Adviser***

If the Principal Paying Agent or Calculation Agent, as the case may be, is unable or unwilling to act as such or if the Principal Paying Agent or Calculation Agent, as the case may be, fails

duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount or Optional Redemption Amount or to comply with any other requirement, the Issuer may appoint an Independent Adviser to determine the Rate of Interest or any other amount at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Pricing Supplement), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Independent Adviser may calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable. Each determination or calculation made by the Independent Adviser pursuant to this Condition shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as the case may be.

For the purposes of this Condition 4(l) (*Determination by Independent Adviser*), the term "**Independent Adviser**" shall have the meaning ascribed to it in Condition 4(k) (*Benchmark Replacement*).

(m) ***Certificates to be final***

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4 (*Interest and other Calculations*) shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor (if applicable), the Principal Paying Agent, the other Paying Agents (if any), the Registrars and all Covered Bondholders, Receipholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Covered Bondholders, the Receipholders or the Couponholders shall attach to the Principal Paying Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(n) ***Definitions***

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Amortised Face Amount**" has the meaning given in Condition 5(f)(iii) (*Early Redemption Amounts*) unless otherwise specified in the applicable Pricing Supplement.

"**BBSW**" means the Australian Bank Bill Swap Rate.

"**BBSW Covered Bond**" means a Floating Rate Covered Bond denominated in Australian dollars.

"**BBSW Reuters Page**" has the meaning given to it in Condition 4(c).

"**BKBM**" means the New Zealand Bank Bill reference rate (FRA).

"**BKBM Covered Bond**" means a Floating Rate Covered Bond denominated in New Zealand dollars.

"**BKBM Reuters Page**" has the meaning given to it in Condition 4(d).

"**Business Day**" means:

- (a) a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments generally in London, Auckland and Wellington; and
- (b) in the case of:
 - (i) a Specified Currency other than Euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments generally in the Principal Financial Centre for such Specified Currency; or
 - (ii) in the case of Euro, a TARGET2 Business Day; and

- (c) in the case of one or more Additional Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in the Additional Business Centres or, if no currency is indicated, generally in each of the Additional Business Centres,

unless otherwise specified in the relevant applicable Pricing Supplement.

"Business Day Convention" in relation to an Interest Payment Date or other particular date, unless otherwise specified in the applicable Pricing Supplement, has the following meaning as so specified in the applicable Pricing Supplement:

- (a) **"Floating Rate Business Day Convention"** means that the relevant date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment;
- (b) **"Following Business Day Convention"** means that the relevant date shall be postponed to the next day that is a Business Day;
- (c) **"Modified Following Business Day Convention"** means that the relevant date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day;
- (d) **"Preceding Business Day Convention"** means that the relevant date shall be brought forward to the immediately preceding Business Day; or
- (e) **"No adjustment"** means that the relevant date shall not be adjusted in accordance with any Business Day Convention.

"Calculation Amount" has the meaning given in the applicable Pricing Supplement.

"Day Count Fraction" means, in relation to the calculation of an amount of interest on any Covered Bond for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Accrual Period, the **"Calculation Period"**):

- (a) if **"Actual/Actual (ICMA)"** is specified in the applicable Pricing Supplement:
 - (i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (x) the actual number of days in such Regular Period and (y) the number of Regular Periods in any year; and
 - (ii) where the Calculation Period is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (x) the actual number of days in such Regular Period and (y) the number of Regular Periods in any year; and
 - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (x) the actual number of days in such Regular Period and (y) the number of Regular Periods in any year;

where **"Regular Period"** means:

- (iii) in the case of Covered Bonds where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each

successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

- (iv) in the case of Covered Bonds where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "Regular Date" means the day and month (but not the year) on which any Interest Payment Date falls; and
 - (v) in the case of Covered Bonds where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "Regular Date" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.
- (b) if "**Actual/Actual (ISDA)**" or "**Actual/Actual**" is specified in the applicable Pricing Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (1) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (2) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
 - (c) if "**Actual/365 (Fixed)**" is specified in the applicable Pricing Supplement, the actual number of days in the Calculation Period divided by 365;
 - (d) if "**Actual/365 (Sterling)**" is specified in the applicable Pricing Supplement, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
 - (e) if "**Actual/360**" is specified in the applicable Pricing Supplement, the actual number of days in the Calculation Period divided by 360;
 - (f) if "**30/360 (ICMA)**" is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360;
 - (g) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Pricing Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

where:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1) + [30 \times M_2 - M_1] + (D_2 - D_1)]}{360}$$

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

"**D₁**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number is 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (h) if "30E/360" or "Eurobond Basis" is specified in the applicable Pricing Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

where:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1) + [30 \times M_2 - M_1] + (D_2 - D_1)]}{360}$$

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30; or

- (i) if "30E/360 (ISDA)" is specified in the applicable Pricing Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

where:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1) + [30 \times M_2 - M_1] + (D_2 - D_1)]}{360}$$

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30,

provided, however, that in each case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period.

"Early Redemption Amount" has the meaning given to it in Condition 5(f) (*Early Redemption Amounts*).

"Effective Date" means, with respect to any Floating Rate to be determined on an Interest Determination Date, unless otherwise specified in the applicable Pricing Supplement, the first day of the Interest Accrual Period to which such Interest Determination Date relates.

"EURIBOR" means the Euro-Zone inter-bank offered rate.

"Euro-Zone" means the region comprised of Member States of the European Economic Area that adopt the single currency in accordance with the Treaty establishing the European Community, as amended ("**Treaty**").

"Extraordinary Resolution" has the meaning given in paragraph 20 of Schedule 4 to the Trust Deed.

"Final Redemption Amount" means, in relation to a Covered Bond, its Principal Amount Outstanding unless otherwise specified in the applicable Pricing Supplement.

"Interest Amount" means the amount of interest payable, and in the case of Fixed Rate Covered Bonds, means the Fixed Coupon Amount, Broken Amount or the amount calculated pursuant to Condition 4(a)(iii) (*Interest on Fixed Rate Covered Bonds*), as the case may be.

"Interest Accrual Period" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date, except that the final Interest Accrual Period ends on (but excludes) the Maturity Date or the date of any earlier redemption of a Covered Bond in accordance with the Conditions, or any other period specified in the applicable Pricing Supplement.

"Interest Commencement Date" means the Issue Date or such other date as may be specified in the applicable Pricing Supplement.

"Interest Determination Date" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the applicable Pricing Supplement or, if none is so specified:

- (a) if the Specified Currency is Sterling or if the Covered Bonds are BBSW Covered Bonds or BKBM Covered Bonds, the first day of such Interest Accrual Period;
- (b) if the Specified Currency is neither Sterling nor Euro, except for BBSW Covered Bonds or BKBM Covered Bonds, the day falling two Business Days for the Specified Currency prior to the first day of such Interest Accrual Period; or
- (c) if the Specified Currency is Euro, the day falling two TARGET2 Business Days prior to the first day of such Interest Accrual Period.

"Interest Payment Date(s)" means the date or dates specified in the applicable Pricing Supplement and, unless otherwise specified in the applicable Pricing Supplement, the final Interest Payment Date shall be the Maturity Date or such earlier date on which the relevant Covered Bonds are redeemed in accordance with the Conditions.

"Interest Period" means, the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date, except that the final Interest Period ends on (but excludes) the Maturity Date or the date of any earlier redemption of a Covered Bond in accordance with the Conditions.

"ISDA Definitions" means, unless otherwise specified in the applicable Pricing Supplement, the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche

of the Covered Bonds of the relevant Series (as specified in the applicable Pricing Supplement)) or, if so specified in the applicable Pricing Supplement, the 2000 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Covered Bonds of the relevant Series (as specified in the applicable Pricing Supplement)) in each case as published by the International Swaps and Derivatives Association, Inc.).

"**HIBOR**" means the Hong Kong inter-bank offered rate.

"**Issue Date**" means the date of issue of the Covered Bonds as specified in the applicable Pricing Supplement;

"**LIBOR**" means the London inter-bank offered rate.

"**Principal Amount Outstanding**" in respect of a Covered Bond means the outstanding principal amount of that Covered Bond.

"**Principal Financial Centre**" means, in relation to a Specified Currency or any other currency, the principal financial centre of the country of that Specified Currency or other currency, which in the case of Euro, is the Euro-Zone and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be (i) Sydney or (ii) Auckland or Wellington, respectively.

"**Rate of Interest**" means the rate of interest payable from time to time in respect of a Covered Bond and that is either specified or calculated in accordance with these Conditions and the provisions set out in the applicable Pricing Supplement.

"**Record Date**" has the meaning given in Condition 6(e) (*Payments in respect of Registered Covered Bonds*).

"**Redemption Amount(s)**" means the Final Redemption Amount or Early Redemption Amount, Optional Redemption Amount, Minimum Redemption Amount or Maximum Redemption Amount, as the case may be.

"**Reference Banks**" means the institutions specified as such in the applicable Pricing Supplement or, if none, four major banks selected by the Issuer and, if applicable, the Guarantor in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the Reference Rate specified in the applicable Pricing Supplement which, if the relevant Reference Rate is EURIBOR, shall be the Euro-Zone.

"**Reference Rate**" means the relevant LIBOR, EURIBOR, STIBOR, HIBOR, SIBOR, TIBOR, BBSW or BKBM rate specified in the applicable Pricing Supplement.

"**Relevant Date**" has the meaning given in Condition 7 (*Taxation*).

"**Relevant Financial Centre**" means, with respect to any Floating Rate to be determined in accordance with Screen Rate Determination on an Interest Determination Date:

- (a) (i) in the case of BBSW Covered Bonds, Sydney (ii) in the case of BKBM Covered Bonds, either Wellington or Auckland, New Zealand or (iii) in either case such other financial centre as may be specified in the applicable Pricing Supplement; and
- (b) in all other cases, the financial centre specified as such in the applicable Pricing Supplement or, if none is so specified, the Principal Financial Centre with which the relevant Reference Rate is most closely connected (which, where the Specified Currency is Euro, shall be the Euro-Zone) or, if none is so connected, London.

"**Relevant Screen Page**" means, the screen page specified as such in the relevant Pricing Supplement or such page as may replace or succeed it for the purposes of displaying the relevant rate.

"**Relevant Time**" with respect to any Interest Determination Date, unless otherwise specified in the applicable Pricing Supplement, 10.15 a.m., Sydney time in the case of BBSW Covered Bonds, 10.45 a.m., Wellington time in the case of BKBM Covered Bonds and 11.00 a.m. Relevant Financial Centre time in respect of all other Covered Bonds (or such other time at which such rate customarily appears).

"**Specified Currency**" means the currency specified as such in the applicable Pricing Supplement or, if none is specified, the currency in which the Covered Bonds are denominated.

"**SIBOR**" means the Singapore inter-bank offered rate.

"**STIBOR**" means the Stockholm inter-bank offered rate.

"**TARGET2 Business Day**" means a day on which the TARGET2 System is open.

"**TARGET2 System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System.

"**TIBOR**" means the Tokyo inter-bank offered rate.

5. **Redemption and Purchase**

(a) ***Final redemption***

Unless previously redeemed in full or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount specified in the applicable Pricing Supplement in the relevant Specified Currency on the Final Maturity Date specified in the applicable Pricing Supplement.

Without prejudice to Condition 9 (*Events of Default and Enforcement*), if an Extended Due for Payment Date is specified as applicable in the Pricing Supplement for a Series of Covered Bonds and the Issuer and the Guarantor have failed to pay the Final Redemption Amount on the Final Maturity Date specified in the Pricing Supplement (or after expiry of the grace period set out in Condition 9(a)(i) (*Issuer Events of Default*), and, following the service of a Notice to Pay on the Covered Bond Guarantor by no later than the date falling one Business Day prior to the Extension Determination Date, the Covered Bond Guarantor has insufficient monies available under the Guarantee Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series of Covered Bonds on the date falling on the earlier of (a) the date which falls two Business Days after service of such Notice to Pay on the Covered Bond Guarantor or, if later, the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9(b)(i) (*Covered Bond Guarantor Events of Default*)) under the terms of the Covered Bond Guarantee and (b) the Extension Determination Date, then (subject as provided below) payment of the unpaid amount by the Covered Bond Guarantor under the Covered Bond Guarantee shall be deferred until the Extended Due for Payment Date, provided that the Covered Bond Guarantor may pay any amount representing the Final Redemption Amount on the relevant Final Maturity Date and any amount representing the Final Redemption Amount due and remaining unpaid on the earlier of (a) and (b) above may also be paid by the Covered Bond Guarantor on any Interest Payment Date thereafter up to (and including) the Extended Due for Payment Date. The Issuer shall confirm to the Principal Paying Agent as soon as reasonably practicable and in any event at least four Business Days prior to the Final Maturity Date of a Series of Covered Bonds whether (x) payment will be made in full of the Final Redemption Amount in respect of a Series of Covered Bonds on that Final Maturity Date or (y) payment will not be made in full of the Final Redemption Amount in respect of a Series of Covered Bonds on that Final Maturity Date. Any failure by the Issuer to notify the Principal Paying Agent shall not affect the validity or effectiveness of the extension.

The Covered Bond Guarantor shall notify the relevant Covered Bondholders (in accordance with Condition 14 (*Notices*)), the Rating Agencies, the Bond Trustee, the Security Trustee, the Principal Paying Agent and the Registrars (in the case of Registered Covered Bonds) as soon as reasonably practicable and in any event at least one Business Day prior to the dates

specified in (a) and (b) of the preceding paragraph of any inability of the Covered Bond Guarantor to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of a Series of Covered Bonds pursuant to the Covered Bond Guarantee. Any failure by the Covered Bond Guarantor to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights in any such party. In such circumstances, the Covered Bond Guarantor shall on the earlier of (a) the date falling two Business Days after the service of a Notice to Pay on the Covered Bond Guarantor or if later the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9(b)(i) (*Covered Bond Guarantor Events of Default*)) and (b) the Extension Determination Date, under the Covered Bond Guarantee, apply the monies (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priority of Payments) pro rata in part payment of an amount equal to the Final Redemption Amount of each Covered Bond of the relevant Series of Covered Bonds and shall pay Guaranteed Amounts constituting the Scheduled Interest in respect of each such Covered Bond on such date. The obligation of the Covered Bond Guarantor to pay any amounts in respect of the balance of the Final Redemption Amount not so paid shall be deferred as described above. Such failure to pay by the Covered Bond Guarantor shall not constitute a Covered Bond Guarantor Event of Default.

Any discharge of the obligations of the Issuer and the Guarantor as the result of the payment of Excess Proceeds to the Bond Trustee shall be disregarded for the purposes of determining the amounts to be paid by the Covered Bond Guarantor under the Covered Bond Guarantee in connection with this Condition 5(a).

For the purposes of these Conditions:

"Extended Due for Payment Date" means, in relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Pricing Supplement to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full on the Extension Determination Date.

"Extension Determination Date" means, in respect of a Series of Covered Bonds to which an Extended Due for Payment Date applies, the date falling two Business Days after the expiry of seven days starting on (and including) the Final Maturity Date of such Series of Covered Bonds.

"Guarantee Priority of Payments" means the guarantee priority of payments relating to the allocation and distribution of all Available Revenue Receipts and Available Principal Receipts following service of a Notice to Pay on the Covered Bond Guarantor, but prior to service of a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor in accordance with clause 12.5 of the Establishment Deed.

"Rating Agency" means any one of Moody's Investors Service Pty Limited and Fitch Australia Pty Ltd (together, the **"Rating Agencies"**) or their successors, to the extent they provide ratings in respect of the Covered Bonds.

(b) ***Redemption for taxation reasons***

The Covered Bonds may be redeemed at the option of the Issuer in whole, or in part, at any time (if the Covered Bond is not a Floating Rate Covered Bond) or on any Interest Payment Date (if the Covered Bond is a Floating Rate Covered Bond), on giving not less than the minimum period (which shall not be less than 5 Business Days) nor more than the maximum period of notice specified in the applicable Pricing Supplement to the Bond Trustee and, in accordance with Condition 14 (*Notices*), the Covered Bondholders (which notice shall be irrevocable), if, on the occasion of the next Interest Payment Date, (i) the Issuer is or will be required to pay additional amounts as provided or referred to in Condition 7 (*Taxation*), (ii) the rate of approved issuer levy exceeds the rate of the levy chargeable as at the date the Issuer originally issued the affected Covered Bonds, or (iii) the Guarantor would be or would become so obliged, if demand was made under the Guarantee. Covered Bonds redeemed pursuant to this Condition 5(b) will be redeemed at their Early Redemption Amount referred

to in Condition 5(f) (*Early Redemption Amounts*) together (if appropriate) with interest accrued to (but excluding) the date of redemption. Prior to the publication of any notice of redemption pursuant to this Condition 5(b), the Issuer or the Guarantor (as the case may be) shall deliver to the Bond Trustee a certificate signed by one person who is either a Director, a Senior Executive, an Authorised Signatory, an authorised representative, an attorney or of equivalent status of the Issuer or the Guarantor (as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all holders of the Covered Bonds, Receipholders and Couponholders.

(c) ***Redemption at the option of the Issuer (Issuer Call)***

If Issuer Call is specified as being applicable in the applicable Pricing Supplement, the Issuer may, having (unless otherwise specified, in the applicable Pricing Supplement) given not less than the minimum period (which shall not be less than 5 Business Days) nor more than the maximum period of notice specified in the applicable Pricing Supplement to the Bond Trustee, the Principal Paying Agent, (in the case of the redemption of Registered Covered Bonds) the Registrars and, in accordance with Condition 14 (*Notices*), the Covered Bondholders (which notice shall be irrevocable) redeem all or some only (as specified in the applicable Pricing Supplement) of the Covered Bonds then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in the applicable Pricing Supplement together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). Upon expiry of such notice, the Issuer shall be bound to redeem the Covered Bonds accordingly. In the event of a redemption of some only of the Covered Bonds, such redemption must be for an amount being the Minimum Redemption Amount or a Higher Redemption Amount. In the case of a partial redemption of Covered Bonds, the Covered Bonds to be redeemed (the "**Redeemed Covered Bonds**") will be selected individually by lot, in the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) (or any alternative or additional clearing system as may be specified in the Pricing Supplement), in the case of Redeemed Covered Bonds represented by a Global Covered Bond, in each case, not more than 60 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 14 (*Notices*) not less than 30-days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Covered Bonds represented by Definitive Covered Bonds shall bear the same proportion to the aggregate nominal amount of all Redeemed Covered Bonds as the aggregate nominal amount of Definitive Covered Bonds outstanding bears to the aggregate nominal amount of the Covered Bonds outstanding, in each case on the Selection Dates, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Covered Bonds represented by a Global Covered Bond shall be equal to the balance of the Redeemed Covered Bonds. No exchange of the relevant Global Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 5(c) and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 14 (*Notices*) at least 30-days prior to the Selection Date.

(d) ***Redemption at the option of the Covered Bondholders***

If Put Option is specified as being applicable in the applicable Pricing Supplement, upon the holder of any Covered Bond giving the Issuer not less than the minimum period (which shall not be less than 15 Business Days) nor more than the maximum period of written notice as specified in the applicable Pricing Supplement the Issuer will, upon the expiry of such notice, redeem such Covered Bond on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of a Covered Bond the holder thereof must, if the Covered Bond is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 5(d) accompanied by the Covered Bond. If the Covered Bond is represented by a Global Covered Bond held through Euroclear or Clearstream, Luxembourg to exercise the right to require redemption of the Covered Bond the holder of the Covered Bond must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear or Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg, or any common depositary or common safekeeper, as the case may be, for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear or Clearstream, Luxembourg from time to time and, if the Covered Bond is represented by a Bearer Global Covered Bond, at the same time present or procure the presentation of the relevant Bearer Global Covered Bond to the Principal Paying Agent for notation accordingly.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg, given by a holder of any Covered Bond pursuant to this Condition 5(d) shall be irrevocable except where, prior to the due date of redemption, an Issuer Event of Default or a Covered Bond Guarantor Event of Default has occurred and is continuing and the Bond Trustee has declared the Covered Bonds to be due and payable pursuant to Condition 9 (*Events of Default and Enforcement*), in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 5(d) and instead request or direct the Bond Trustee to declare such Covered Bond forthwith due and payable pursuant to Condition 9 (*Events of Default and Enforcement*).

(e) ***Redemption due to illegality***

The Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than the minimum period nor more than the maximum period of notice specified in the applicable Pricing Supplement to the Bond Trustee, the Principal Paying Agent, the Registrars and, in accordance with Condition 14 (*Notices*), all the Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that it has, or will before the next Interest Payment Date of any Covered Bond of any Series, become unlawful for the Intercompany Loan Provider and/or the Demand Loan Provider to make, fund or allow to remain outstanding any Term Advance and/or the Demand Loan (or, in either case, any part thereof) made by the Intercompany Loan Provider or the Demand Loan Provider, as the case may be to the Covered Bond Guarantor pursuant to the Intercompany Loan Agreement or the Demand Loan Agreement, as the case may be, as a result of any change in, or amendment to, the applicable laws or regulations or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or will become effective before the next such Interest Payment Date.

Covered Bonds redeemed pursuant to this Condition 5(e) will be redeemed at their Early Redemption Amount referred to in Condition 5(f) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

Prior to the publication of any notice of redemption pursuant to this Condition 5(e), the Issuer shall deliver to the Bond Trustee a certificate signed by one person who is either a Director, a Senior Executive, an authorised representative, an attorney, an Authorised Signatory or of equivalent status of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all holders of the Covered Bonds, Receiptholders and Couponholders.

(f) **Early Redemption Amounts**

For the purpose of Conditions 5(b) (*Redemption for taxation reasons*) and 5(e) (*Redemption due to illegality*) above and Condition 9 (*Events of Default and Enforcement*), each Covered Bond will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Covered Bond with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Covered Bond (other than a Zero Coupon Covered Bond but including an Instalment Covered Bond) with a Final Redemption Amount which is or may be less or greater than the Issue Price, at the amount specified in the applicable Pricing Supplement or, if no such amount is so specified in the applicable Pricing Supplement, at its nominal amount; or
- (iii) in the case of a Zero Coupon Covered Bond, at an amount (the "**Amortised Face Amount**") equal to the sum of:
 - (A) the Issue Price; and
 - (B) the product of the Accrual Yield (compounded annually) being applied to the Issue Price from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (i) in the case of a Zero Coupon Covered Bond payable in a Specified Currency other than Euro, on the basis of a 360-day year consisting of 12 months of 30-days each or (ii) in the case of a Zero Coupon Covered Bond payable in Euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non leap year divided by 365) or (iii) on such other calculation basis as may be specified in the applicable Pricing Supplement.

(g) **Instalments**

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Pricing Supplement. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 5(f) above.

(h) **Purchases**

The Issuer, the Guarantor or any of their respective subsidiaries or the Covered Bond Guarantor may at any time purchase or otherwise acquire Covered Bonds (provided that, in the case of Bearer Definitive Covered Bonds, all un-matured Receipts, Coupons and Talons appertaining thereto are attached thereto or surrendered therewith) at any price and in any manner. If purchases are made by tender, tenders must be available to all the Covered Bondholders alike. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer or the Guarantor or the relevant subsidiary, surrendered to the relevant Registrar and/or to any Paying Agent for cancellation (except that any Covered Bonds purchased or otherwise acquired by the Covered Bond Guarantor must immediately be surrendered to the relevant Registrar and/or to any Paying Agent for cancellation).

(i) **Cancellation**

All Covered Bonds which are redeemed in full will forthwith be cancelled (together with, in the case of Bearer Definitive Covered Bonds, all un-matured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 5(h) and cancelled (together with, in the case of Bearer Definitive Covered Bonds,

all un-matured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be held, reissued or resold.

(j) ***Late payment on Zero Coupon Covered Bonds***

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Condition 5(a), 5(b), 5(c), 5(d) or 5(e) above or upon its becoming due and repayable as provided in Condition 9 (*Events of Default and Enforcement*) is improperly withheld or refused or default is otherwise made in the payment thereof, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in Condition 5(f)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and
- (ii) the date on which the full amount of the monies payable in respect of such Zero Coupon Covered Bonds has been received by the Principal Paying Agent or the Bond Trustee or the relevant Registrar and notice to that effect has been given to the Covered Bondholders either in accordance with Condition 14 (*Notices*) or individually.

6. **Payments**

(a) ***Method of payment***

Subject as provided below:

- (i) payments in a Specified Currency other than Euro will be made by credit or electronic transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be (i) Sydney or (ii) Auckland or Wellington, respectively); and
 - (ii) payments in Euro will be made by credit or electronic transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro cheque.
- (b) Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (Taxation) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 to 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto. References to Specified Currency will include any successor currency under applicable law.

(c) ***Presentation of Bearer Definitive Covered Bonds, Receipts and Coupons***

Payments of principal and interest (if any) in respect of Bearer Definitive Covered Bonds will (subject as provided below) be made in the manner provided in Condition 6(a) (*Method of payment*) above only against presentation and surrender of Bearer Definitive Covered Bonds or Coupons, as the case may be, at any specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments (if any) of principal in respect of Bearer Definitive Covered Bonds other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 6(a) (*Method of payment*) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 6(a) (*Method of payment*) above only against presentation and

surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Covered Bond in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Bearer Definitive Covered Bond to which it appertains. If any Bearer Definitive Covered Bond is redeemed or becomes repayable prior to the stated maturity thereof, principal will be payable only on surrender of such Bearer Definitive Covered Bond together with all un-matured Receipts appertaining thereto. Receipts presented without the Bearer Definitive Covered Bond to which they appertain and un-matured Receipts do not constitute valid obligations of the Issuer, the Guarantor or the Covered Bond Guarantor. Upon the date on which any Bearer Definitive Covered Bond becomes due and repayable, un-matured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Covered Bonds in definitive bearer form (other than Long Maturity Covered Bonds) should be presented for payment together with all un-matured Coupons appertaining thereto (which expression shall include Coupons falling to be issued on exchange of matured Talons), failing which an amount equal to the face value of any missing un-matured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing un-matured Coupon as the sum so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon amounts in respect of any Fixed Rate Covered Bond in definitive bearer form becoming due and repayable by the Issuer (in the absence of a Notice to Pay) or the Covered Bond Guarantor under the Covered Bond Guarantee prior to its Final Maturity Date (or, as the case may be, Extended Due for Payment Date), all un-matured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the due date for redemption of any Floating Rate Covered Bond or Long Maturity Covered Bond in definitive bearer form, all un-matured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A Long Maturity Covered Bond is a Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a "**Long Maturity Covered Bond**" on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond. If the date for redemption of any Bearer Definitive Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Covered Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Bearer Definitive Covered Bond.

(d) ***Payments in respect of Bearer Global Covered Bonds***

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Bearer Global Covered Bond will (subject as provided below) be made in the manner specified above in relation to Bearer Definitive Covered Bonds and otherwise in the manner specified in the relevant Global Covered Bond (against presentation or surrender, as the case may be, of such Bearer Global Covered Bond if the Bearer Global Covered Bond is not intended to be issued in NGCB form at the specified office of any Paying Agent outside the United States). On the occasion of each payment, (i) in the case of any Bearer Global Covered Bond which is not issued in NGCB form, a record of such payment made on such Bearer Global Covered Bond, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Covered Bond by the Paying Agent and such record shall be prima facie evidence that the payment in question has been made and (ii) in the case of any Bearer Global Covered Bond which is issued in NGCB form, the Paying Agent

shall instruct Euroclear and Clearstream, Luxembourg and the common safekeeper to make appropriate entries in their records to reflect such payment.

(e) ***Payments in respect of Registered Covered Bonds***

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Covered Bond at the specified office of the relevant Registrar or any of the Paying Agents. Such payments will be made by electronic transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the relevant Registrar (the "**Register**") (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are (as applicable) open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third Business Day (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Covered Bonds held by a holder is less than US\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "**Designated Account**" means the account maintained by a holder with a Designated Bank and identified as such in the Register and "**Designated Bank**" means (in the case of payment in a Specified Currency other than Euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland and Wellington, respectively) and (in the case of a payment in Euro) any bank which processes payments in Euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the Business Day in the city where the specified office of the relevant Registrar is located on the relevant due date to the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Register:

- (i) where the Registered Covered Bond is in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are (as applicable) open for business) before the relevant due date; and
- (ii) where in definitive form, at the close of business on the 15th day (whether or not such 15th day is a Business Day) before the relevant due date,

(in either case, the "**Record Date**") at the holder's address shown in the Register on the Record Date and at the holder's risk. Upon application of the holder to the specified office of the relevant Registrar not less than three Business Days in the city where the specified office of the relevant Registrar is located before the due date for any payment of interest in respect of a Registered Covered Bond, the payment may be made by electronic transfer on the due date in the manner provided in the preceding paragraph. Any such application for electronic transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Covered Bonds which become payable to the holder who has made the initial application until such time as the relevant Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Covered Bond on redemption and the final instalment of principal will be made in the same manner as payment of the principal in respect of such Registered Covered Bond.

Holders of Registered Covered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Covered Bond as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the

Registrars in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

None of the Issuer, the Guarantor, the Covered Bond Guarantor, the Bond Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(f) ***General provisions applicable to payments***

The holder of a Global Covered Bond (or, as provided in the Bond Trust Deed, the Bond Trustee) shall be the only person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and the Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or, as the case may be, the Covered Bond Guarantor will be discharged by payment to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Covered Bonds represented by such Global Covered Bond must look solely to Euroclear or Clearstream, Luxembourg for his share of each payment so made by the Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or the Covered Bond Guarantor to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be). No person other than the holder of the relevant Global Covered Bond (or, as provided in the Bond Trust Deed, the Bond Trustee) shall have any claim against the Issuer, the Guarantor or the Covered Bond Guarantor in respect of any payments due on that Global Covered Bond.

Notwithstanding the foregoing provisions of this Condition, payments of principal and/or interest in U.S. dollars in respect of the Bearer Covered Bonds will only be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer and the Guarantor has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of interest on the Bearer Covered Bonds in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, the Guarantor and the Covered Bond Guarantor, adverse Tax consequences to the Issuer, the Guarantor or the Covered Bond Guarantor.

(g) ***Payment Business Day***

If the date for payment of any amount in respect of any Covered Bond, Receipt or Coupon is not a Payment Business Day (as defined below), the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Business Day and shall not be entitled to any interest or other sum in respect of any such delay. In this Condition (unless otherwise specified in the applicable Pricing Supplement), "**Payment Business Day**" means any day (other than a Saturday or a Sunday) on which (subject to Condition 8 (*Prescription*)):

- (i) commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) in the case of Covered Bonds in definitive form, the relevant place of presentation; and

- (B) any Additional Financial Centre specified in the applicable Pricing Supplement;
 - (ii) either (1) in relation to any sum payable in a Specified Currency other than Euro, commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the Principal Financial Centre of the country of the relevant Specified Currency (if other than the places specified in Condition 6(g)(i) and which if the Specified Currency is Australian dollars shall be Sydney) or (2) in relation to any sum payable in Euro, the TARGET 2 System is open.
- (h) ***Interpretation of principal and interest***

Any reference in these Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 7 (*Taxation*) or under any undertakings or covenants given in addition thereto, or in substitution therefor, pursuant to the Bond Trust Deed;
- (ii) the Final Redemption Amount of the Covered Bonds;
- (iii) the Early Redemption Amount of the Covered Bonds;
- (iv) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (v) in relation to Covered Bonds redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 5(f) (*Early Redemption Amounts*));
- (vii) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds; and
- (viii) any Excess Proceeds which may be payable by the Bond Trustee under or in respect of the Covered Bonds.

Any reference in these Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 (*Taxation*) or under any undertakings given in addition thereto, or in substitution therefor, pursuant to the Bond Trust Deed.

7. **Taxation**

All payments of principal and interest (if any) in respect of the Covered Bonds, Receipts and Coupons by or on behalf of the Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or the Covered Bond Guarantor, as the case may be, will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of New Zealand and/or, where the Issuer is acting through its branch, the jurisdiction, country or territory in which the branch through which the Issuer is acting as specified in the relevant Pricing Supplement is located or in each case, any political sub-division thereof or by any authority therein or thereof having power to tax unless such withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In the event of a withholding or deduction being made by the Issuer or the Guarantor (as the case may be) in respect of a payment made by it, the Issuer or the Guarantor (as the case may be) will pay such additional amounts as shall be necessary in order that the net amounts received by the Covered Bondholders, Receiptholders or Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Covered Bonds, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that the foregoing obligation to pay additional amounts shall apply only (1) in the case of Covered Bonds issued by ANZNIL; and (2) in the case of Covered Bonds issued by ANZ New Zealand only in respect of non-resident

withholding tax required to be deducted by the Tax Act; and shall not apply to any such tax, assessment, governmental charge or duty:

- (a) which is payable otherwise than by deduction or withholding from payments of principal of and interest on such Covered Bond, Receipt or Coupon;
- (b) which is payable (other than in respect of New Zealand resident withholding tax) by reason of the Covered Bondholder, Receiptholder or Couponholder or beneficial owner (or any one of them in case of principal or interest derived by two or more persons jointly) having, or having had, some personal or business connection with a Tax Jurisdiction (other than mere ownership of or receipt of payment under the Covered Bonds, Receipts or Coupon or the fact that payments are, or for the purposes of taxation are deemed to be, from sources in, or secured in a Tax Jurisdiction);
- (c) which is payable solely by reason of the Covered Bondholder's, Receiptholder's or Couponholder's or beneficial owner's failure to comply with any certification, identification or other reporting requirement concerning nationality, residence, identity or connection with the taxing jurisdiction of the Covered Bondholder, Receiptholder or Couponholder or other beneficial owner of such Covered Bond;
- (d) which is payable by reason of a change in law that becomes effective more than thirty days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Business Day (as defined in Condition 6(f) (*General provisions applicable to payments*)));
- (e) which is an estate, inheritance, gift, sales, transfer, personal property or similar tax, assessment or other charge;
- (f) which is payable by reason of the Covered Bondholder, Receiptholder or Couponholder or beneficial owner of such Covered Bond, Receipt or Coupon being associated with the Issuer or the Guarantor or the Covered Bond Guarantor for the purposes of the approved issuer levy and non-resident withholding tax rules in the Tax Act or any modification or equivalent thereof;
- (g) which is payable solely by reason of the relevant Covered Bond, Receipt or Coupon being presented for payment in New Zealand;
- (h) which is imposed or withheld as a consequence of the IRD applying section BG1 of the Tax Act (or any modification or equivalent thereof) with the consequence that withholding tax is payable in respect of a payment in circumstances where the payment would not have been subject to withholding tax in the absence of the application of such provision;
- (i) where such withholding or deduction is for or on account of withholding tax under the New Zealand resident withholding tax regime;
- (j) which is payable on the Covered Bonds, Receipts and Coupons presented for payment by or on behalf of a Covered Bondholder, Receiptholder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Covered Bond, Receipt or Coupon to another Paying Agent in a member state of the European Union;
- (k) with respect to any payment of principal of or interest (including original issue discount) on the Covered Bonds, Receipts and Coupons by the Issuer (or the Guarantor, as the case may be) to any Covered Bondholder, Receiptholder or Couponholder who is a fiduciary or partnership or other than the sole beneficial owner of any such payment to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or any other beneficial owner would not have been entitled to the additional amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Covered Bonds, Receipts and Coupons; or

- (l) any combination of (a) through (k) above,

nor shall additional amounts be paid with respect to a payment of principal or interest to a holder that is not the beneficial owner of such Covered Bond, Receipt or Coupon to the extent that the beneficial owner thereof would not have been entitled to such additional amount had such beneficial owner been the holder of such Covered Bond, Receipt or Coupon.

If any payments made by the Covered Bond Guarantor under the Covered Bond Guarantee are or become subject to any withholding or deduction, on account of any taxes, duties or other charges of whatever nature, imposed or levied by or on behalf of New Zealand or by any other authority having power to tax, the Covered Bond Guarantor:

- (i) will not be obliged to pay any additional amount as a consequence; and
- (ii) for the avoidance of doubt, will not be required to pay any amount of approved issuer levy in respect of such payments unless required by law.

If the Covered Bond Guarantor is required by law to pay any amount of approved issuer levy in respect of any payments made by it under the Covered Bond Guarantee, it may deduct from such payments an amount equal to the amount of approved issuer levy payable and will not be obliged to pay any additional amount as a consequence.

In addition, the Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or the Covered Bond Guarantor, as the case may be, will have the right to withhold and deduct a portion of any payment by reason of the failure of any person to whom such payment is being made to perfect an exemption from any withholding imposed pursuant to Sections 1471 through 1474 of the Code and any regulations thereunder, agreements entered into pursuant thereto, or official interpretations thereof, and in that case, no additional amounts will be paid.

As used herein:

- (iii) "**Tax Jurisdiction**" means each of the United Kingdom and New Zealand;
- (iv) the "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Bond Trustee or the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Covered Bondholders in accordance with Condition 14 (*Notices*).

Where used in the remaining provisions of this Condition 7, interest means interest (as defined under the Tax Act or any modification or equivalent thereof) for withholding tax purposes, which includes the excess of the redemption amount over the issue price of any Covered Bond, as well as interest paid on such Covered Bond. The Issuer is, and the Guarantor and the Covered Bond Guarantor (where applicable) may be required by law to deduct New Zealand resident withholding tax from the payment of interest to a Covered Bondholder, Receiptholder or Couponholder, if:

- (a) the Covered Bondholder, Receiptholder or Couponholder, as the case may be, is a resident of New Zealand for income tax purposes or is otherwise subject to the New Zealand resident withholding tax rules (a "**New Zealand Covered Bondholder**"); and
- (b) at the time of such payment, the New Zealand Covered Bondholder does not hold a valid certificate of exemption for New Zealand resident withholding tax purposes.

Prior to any date on which interest is payable or the Final Maturity Date, any New Zealand Covered Bondholder:

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

The New Zealand Covered Bondholder must notify the Issuer or, as the case may be, the Guarantor or the Covered Bond Guarantor, prior to any date on which interest is payable, of any change in the New Zealand Covered Bondholder's circumstances from those previously notified that could affect the payment or withholding obligations of the Issuer or, as the case may be, the Guarantor or the Covered Bond Guarantor, in respect of this Covered Bond, Receipt or Coupon. By accepting payment of the full face amount of a Covered Bond, Receipt or Coupon, as the case may be or any interest thereon, the New Zealand Covered Bondholder indemnifies the Issuer or, as the case may be, the Guarantor or the Covered Bond Guarantor, for all purposes in respect of any liability the Issuer or, as the case may be, the Guarantor or the Covered Bond Guarantor may incur for not deducting any amount from such payment on account of New Zealand resident withholding tax.

Only a New Zealand Covered Bondholder will be obliged to make the notification referred to above and no other holder will be required to make any certification that is not a New Zealand Covered Bondholder.

8. **Prescription**

The Covered Bonds (whether in bearer or registered form), Receipts and Coupons will become void unless claims in respect of principal and/or interest are made within 10 years (in the case of principal) and five years (in the case of interest) in each case from the Relevant Date (as defined in Condition 7 (*Taxation*)) therefor, subject in each case to the provisions of Condition 6 (*Payments*).

There shall not be included in any Coupon sheet issued on exchange of a Talon, any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6 (*Payments*) or any Talon which would be void pursuant to Condition 6 (*Payments*).

9. **Events of Default and Enforcement**

(a) ***Issuer Events of Default***

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose or the purpose of any Extraordinary Resolution referred to in this Condition 9(a) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Bond Trust Deed) then outstanding, as if they were a single Series (with the Principal Amount Outstanding of Covered Bonds not denominated in NZ dollars converted into NZ dollars at the relevant Swap Rate) or if so directed by an Extraordinary Resolution of the Covered Bondholders shall, (but in the case of the happening of any of the events mentioned in subparagraph (ii) or (vi) below, only if the Bond Trustee shall have certified in writing to the Issuer and the Guarantor that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series) (subject in each case to being indemnified and/or secured and/or repudiated to its satisfaction) give notice (an "**Issuer Acceleration Notice**") in writing to the Issuer and the Guarantor (in the case of Covered Bonds issued by ANZNIL) that as against the Issuer and the Guarantor (but not, for the avoidance of doubt, as against the Covered Bond Guarantor under the Covered Bond

Guarantee) each Covered Bond of each Series is, and each such Covered Bond shall, unless such event shall have been cured by the Issuer or the Guarantor (in the case of Covered Bonds issued by ANZNIL) prior to the Issuer's or the Guarantor's (as the case may be) receipt of the notice in writing from the Bond Trustee, thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Bond Trust Deed if any of the following events (each an "**Issuer Event of Default**") shall occur:

- (i) default is made in the payment of any principal or interest when due, in respect of any Covered Bonds and such default continues for a period of seven days; or
- (ii) the Issuer fails to perform or observe any of its obligations under any Covered Bonds or, if applicable, the Guarantor fails to perform or observe any of its obligations under the Guarantee, in either case other than those specified in paragraph (i) above and in such case (except where such failure is incapable of remedy) such failure continues for the period of 30-days next following the service by the Bond Trustee on the Issuer and the Guarantor (if applicable) of written notice requiring the same to be remedied; or
- (iii) otherwise than for the purpose of an amalgamation or reconstruction or merger within the meaning of these words under the laws of New Zealand or, where the Issuer is acting through its branch, of the jurisdiction, country or territory in which the branch through which the Issuer is acting as specified in the relevant Pricing Supplement is located, a resolution is passed that the Issuer or, as the case may be, the Guarantor be wound up or dissolved; or
- (iv) the Issuer or the Guarantor stops payment (within the meaning of New Zealand or any other applicable bankruptcy law) of its obligations; or
- (v) an encumbrancer takes possession of or a receiver is appointed of the whole or a substantial part of the undertaking and assets of the Issuer or the Guarantor and any such event is continuing for 45 days after its occurrence and would materially prejudice the performance by the Issuer or, as the case may be, the Guarantor of its obligations under the Covered Bonds or a distress or execution is levied or enforced upon or sued out against the whole or a substantial part of the undertaking and assets of the Issuer or, as the case may be, the Guarantor which would materially prejudice the performance of (A) the Issuer of its obligations under the Covered Bonds or, (B) if applicable, the Guarantor of its obligations under the Guarantee, and in each case is not discharged within 60 days thereof; or
- (vi) proceedings shall have been initiated against the Issuer or the Guarantor under any applicable bankruptcy, reorganisation or other similar law and such proceedings shall not have been discharged or stayed within a period of 60 days; or
- (vii) the Issuer or the Guarantor shall initiate or consent to proceedings relating to itself under any applicable bankruptcy, insolvency, composition or other similar law (otherwise than for the purpose of amalgamation, reconstruction or merger (within the meaning of those words under the laws of New Zealand or, where the Issuer is acting through its branch, of the jurisdiction, country or territory in which the branch through which the Issuer is acting as specified in the relevant Pricing Supplement is located)); or
- (viii) the Guarantee is (A) not in full force and effect and, where capable of remedy, the Guarantee is not in full force and effect within seven days of the date the defect is first discovered or (B) claimed by the Guarantor not to be in full force and effect; or
- (ix) if an Asset Coverage Test Breach Notice is served and not revoked (or deemed to be revoked) in accordance with the terms of the Establishment Deed on or before the next Determination Date to occur following the service of such Asset Coverage Test Breach Notice; or
- (x) if the Pre-Maturity Test in respect of any Series of Hard Bullet Covered Bonds is breached during the Pre-Maturity Test Period and the amount standing to the credit of

the Pre-Maturity Ledger of the GIC Account is less than the NZ dollar Equivalent of the Required Redemption Amount for each Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test has been breached on the earlier to occur of:

- (A) the later of:
 - (I) the date that is 10 Local Business Days from the date that the Seller is notified of that breach; and
 - (II) the date that is six months prior to the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds; and
- (B) the Final Maturity Date of that Series of Hard Bullet Covered Bonds.

Upon the Covered Bonds becoming immediately due and repayable against the Issuer and the Guarantor pursuant to this Condition 9(a), the Bond Trustee shall forthwith serve a notice to pay (the "**Notice to Pay**") on the Covered Bond Guarantor pursuant to the Covered Bond Guarantee and the Covered Bond Guarantor shall be required to make payments of Guaranteed Amounts when the same shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may or shall take such proceedings or other action or step against the Issuer and the Guarantor in accordance with Condition 9(c) (*Enforcement*).

The Bond Trust Deed provides that all monies received by the Bond Trustee following the occurrence of an Issuer Event of Default and the delivery of an Issuer Acceleration Notice and Notice to Pay, from the Issuer, the Guarantor or any receiver, liquidator, administrator or other similar official appointed in relation to the Issuer or the Guarantor following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice and a Notice to Pay (the "**Excess Proceeds**"), shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the Covered Bond Guarantor for its own account, as soon as practicable, and shall be held by the Covered Bond Guarantor in the GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the Covered Bond Guarantor in the same manner as all other monies from time to time standing to the credit of the GIC Account pursuant to the Security Deed and the Establishment Deed. Any Excess Proceeds received by the Bond Trustee shall discharge pro tanto the obligations of the Issuer and the Guarantor (in respect of the Covered Bonds issued by ANZNIL) in respect of the payment of the amount of such Excess Proceeds under the Guarantee, Covered Bonds, Receipts and Coupons (as applicable and to the extent of the amount so received and subject to restitution of the same if such Excess Proceeds shall be required to be repaid by the Covered Bond Guarantor) (but shall be deemed not to have done so for the purposes of subrogation rights of the Covered Bond Guarantor contemplated by the Bond Trust Deed). However, the obligations of the Covered Bond Guarantor under the Covered Bond Guarantee are (following service of an Issuer Acceleration Notice and a Notice to Pay or if earlier, Service of a Covered Bond Guarantee Acceleration Notice) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds and payment to the Covered Bond Guarantor of such Excess Proceeds shall not reduce or discharge any of such obligations.

By subscribing for Covered Bond(s), each Covered Bondholder shall be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the Covered Bond Guarantor in the manner as described above.

(b) ***Covered Bond Guarantor Events of Default***

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 9(b) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Bond Trust Deed) then outstanding as if they were a single Series (with the Principal Amount Outstanding of Covered Bonds not denominated in NZ dollars converted

into NZ dollars at the relevant Swap Rate) or if so directed by an Extraordinary Resolution of all the Covered Bondholders shall, (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction), but in the case of the happening of any of the events described in paragraph (ii) or (v) below, only if the Bond Trustee shall have certified in writing to the Issuer, the Guarantor and the Covered Bond Guarantor that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series, give notice (the "**Covered Bond Guarantee Acceleration Notice**") in writing to the Issuer, the Guarantor and to the Covered Bond Guarantor, that (x) each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer and the Guarantor (if not already due and repayable against it following an Issuer Event of Default), thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest and (y) all amounts payable by the Covered Bond Guarantor under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with accrued interest, in each case as provided in the Bond Trust Deed and thereafter the Security shall become enforceable if any of the following events (each a "**Covered Bond Guarantor Event of Default**") shall occur and be continuing:

- (i) default is made by the Covered Bond Guarantor for a period of 14 days or more in the payment of any Guaranteed Amounts when Due for Payment in respect of the Covered Bonds of any Series except in the case of the payments of a Guaranteed Amount when Due for Payment on the Extended Due for Payment Date under Condition 5(a) (*Final Redemption*) where the Covered Bond Guarantor shall be required to make payments of Guaranteed Amounts which relate to the Final Redemption Amount and which are Due for Payment on the Extended Due for Payment Date; or
- (ii) if default is made by the Covered Bond Guarantor in the performance or observance of any other obligation, condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Bond Trust Deed, the Security Deed or any other Programme Document to which the Covered Bond Guarantor is a party (other than the Programme Agreement or any Subscription Agreement) and, except where such default is or the effects of such default are, in the opinion of the Bond Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30-days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the Covered Bond Guarantor requiring the same to be remedied; or
- (iii) if the Covered Bond Guarantor ceases or threatens to cease to carry on its business or substantially the whole of its business; or
- (iv) the Covered Bond Guarantor shall stop payment or shall be unable, or shall admit inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or
- (v) proceedings are initiated against the Covered Bond Guarantor under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition or the filing of documents with a court or any registrar for its winding up, administration or dissolution or the giving notice of the intention to appoint an administrator (whether out of court or otherwise)); or a receiver and/or manager, administrative receiver, administrator, trustee or other similar official shall be appointed (whether out of court or otherwise) in relation to the Covered Bond Guarantor or in relation to the whole or any part of its assets, or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any part of its assets, or if the Covered Bond Guarantor shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance, assignment or assignation for the benefit of, or shall enter into any composition with, its creditors generally; or

- (vi) a failure to satisfy the Amortisation Test (as set out in the Establishment Deed) on any Determination Date following service of a Notice to Pay on the Covered Bond Guarantor; or
- (vii) the Covered Bond Guarantee is not, or is claimed by the Covered Bond Guarantor not to be, in full force and effect.

Following the occurrence of a Covered Bond Guarantor Event of Default and service of a Covered Bond Guarantee Acceleration Notice on the Covered Bond Guarantor each of the Bond Trustee and the Security Trustee may or shall take such proceedings or steps in accordance with the first and third paragraphs, respectively, of Condition 9(c) (*Enforcement*) and the Covered Bondholders shall have a claim against the Covered Bond Guarantor, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount for each Covered Bond of each Series together with accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable under Condition 7 (*Taxation*)) as provided in the Bond Trust Deed in respect of each Covered Bond.

(c) ***Enforcement***

The Bond Trustee may at any time, at its discretion and without further notice, following service of an Issuer Acceleration Notice (in the case of the Issuer and the Guarantor) or, if earlier, following service of a Covered Bond Guarantee Acceleration Notice (in the case of the Covered Bond Guarantor) take such proceedings or other action or step as it may think fit against or in relation to the Issuer and/or the Guarantor (in the case of Covered Bonds issued by ANZNIL) and/or the Covered Bond Guarantor, as the case may be, and/or any other person as it may think fit to enforce the provisions of the Bond Trust Deed, the Covered Bonds, the Receipts and the Coupons or any other Programme Document, but it shall not be bound to take any such enforcement proceedings or other action or step in relation to the Bond Trust Deed, the Covered Bonds, the Receipts or the Coupons or any other Programme Document unless (i) it shall have been so directed by an Extraordinary Resolution of the Covered Bondholders of all Series then outstanding (with the Covered Bonds of all Series taken together as a single Series and converted into NZ dollars at the relevant Swap Rate as aforesaid) or so requested in writing by the holders of not less than 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (with the Covered Bonds of all Series taken together as a single Series and converted into NZ dollars at the relevant Swap Rate as aforesaid) and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

In exercising any of its powers, trusts, authorities and discretions the Bond Trustee shall only have regard to the interests of the Covered Bondholders of all Series equally and shall not have regard to the interests of any other Secured Creditors.

The Bond Trustee may at any time, following service of a Covered Bond Guarantee Acceleration Notice at its discretion and without further notice, direct the Security Trustee to take such steps or proceedings against the Covered Bond Guarantor and/or any other person as it may think fit to enforce the provisions of the Security Deed or any other Programme Document and may, at any time after the Security has become enforceable, direct the Security Trustee to take such steps as it may think fit to enforce the Security, but it shall not be bound to give any such direction and the Security Trustee shall not be bound to take any such steps or proceedings unless (i) the Bond Trustee shall have been so directed by an Extraordinary Resolution of the Covered Bondholders of all Series then outstanding (with the Covered Bonds of all Series taken together as a single Series and converted into NZ dollars at the relevant Swap Rate as aforesaid) or so requested in writing by the holders of not less than 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (with the Covered Bonds of all Series taken together as a single Series and converted into NZ dollars at the relevant Swap Rate as aforesaid); and (ii) each of the Bond Trustee and Security Trustee shall have been indemnified and/or secured and/or prefunded to its satisfaction. In exercising any of its powers, trusts, authorities and discretions under this paragraph each of the Bond Trustee and the Security Trustee shall only have regard to the interests of the Covered Bondholders of all Series equally and shall not have regard to the interests of any other Secured Creditors.

No Covered Bondholder, Receiptholder or Couponholder shall be entitled to institute proceedings directly against the Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) or the Covered Bond Guarantor or to take any step or action with respect to the Bond Trust Deed, the Covered Bonds, the Receipts, the Coupons, or the Security unless the Bond Trustee or the Security Trustee, as applicable, having become bound so to proceed, fails so to do within a reasonable time and such failure is continuing in which event any Covered Bondholder, Receiptholder or Couponholder may, himself institute such proceedings and/or prove in the winding up, administration or liquidation of the Issuer and/or the Guarantor or the Covered Bond Guarantor to the same extent and in the same jurisdiction (but not further or otherwise than the Bond Trustee would have been entitled to do so in respect of the Covered Bonds, Receipts and Coupons and/or the Bond Trust Deed).

10. **Principal Paying Agent, Paying Agents and Registrars**

The names of the initial Principal Paying Agent, the other initial Paying Agents, the initial Registrars and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Pricing Supplement.

In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Principal Paying Agent, or failing duly to determine the Rate of Interest, if applicable, or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint the London office of such other bank as may be approved by the Bond Trustee to act as such in its place. The Principal Paying Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid.

The Issuer, the Guarantor (in the case of Covered Bonds issued by ANZNIL) and the Covered Bond Guarantor are entitled, with the prior written approval of the Bond Trustee (such approval not to be unreasonably withheld or delayed), to vary or terminate the appointment of any Paying Agent or Registrar and/or appoint additional or other Paying Agents or Registrars and/or approve any change in the specified office through which any Paying Agent or Registrar acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Luxembourg Registrar;
- (b) so long as any of the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Covered Bonds) and a Transfer Agent (in the case of Registered Covered Bonds) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or as the case may be, other relevant authority;
- (c) the Issuer will ensure that it appoints a Paying Agent in a Member State of the European Union (other than the United Kingdom) in the event that it is required to withhold or deduct tax on payments made in the United Kingdom.

In addition, the Issuer shall, when necessary appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6(f) (*General provisions applicable to payments*). Notice of any such variation, termination, appointment or change will be given by the Issuer to the Covered Bondholders as soon as reasonably practicable in accordance with Condition 14 (*Notices*).

In acting under the Principal Agency Agreement, the Agents act solely as agents of the Issuer, the Guarantor and the Covered Bond Guarantor and do not assume any obligation to, or relationship of agency or trust with, any Covered Bondholders, Receiptholders or Couponholders. The Principal Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent. Pursuant to the Principal Agency Agreement, the Issuers, the Guarantor or the Covered Bond Guarantor may remove at any time, with prior written approval of the Bond Trustee and on giving 30-days'

notice in writing, any Agent that is an FFI and either ceases to be, or fails to become, a participating FFI or a registered deemed compliant FFI as those terms are defined in FATCA.

11. **Meetings of Covered Bondholders, Modification, Waiver, Substitution and Legislative Exchange**

Covered Bondholders, Receiptholders, Couponholders and other Secured Creditors should note that the Issuers, the Guarantor, the Covered Bond Guarantor and the Principal Paying Agent may without their consent or the consent of the Bond Trustee or the Security Trustee agree to modify any provision of any Pricing Supplement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provisions of law.

(a) **Meetings**

The Bond Trust Deed contains provisions for convening meetings of the Covered Bondholders of any Series to consider any matter affecting their interests, including the modification of these Conditions or the provisions of the Bond Trust Deed. The quorum at any such meeting in respect of the Covered Bonds of any Series for passing an Extraordinary Resolution (other than in respect of a Series Reserved Matter) is two or more persons holding or representing not less than a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned meeting two or more persons being or representing the Covered Bondholders of such Series whatever the Principal Amount Outstanding of the Covered Bonds of such Series so held or represented, except that at any meeting the business of which includes any Series Reserved Matter, the quorum for any adjourned meeting shall be two or more persons holding or representing not less than one-third of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding. The expression Extraordinary Resolution when used in these Conditions means: (i) a resolution passed at a meeting of the Covered Bondholders duly convened and held in accordance with the Bond Trust Deed by a majority consisting of not less than three-fourths of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than three fourths of the votes cast on such poll; or (ii) a resolution in writing signed by or on behalf of Covered Bondholders holding not less than seventy five per cent. in Principal Amount Outstanding of the Covered Bonds then outstanding, which resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of two or more of the Covered Bondholders; or (iii) a resolution by way of electronic consents given by holders through the relevant clearing system(s) (in a form satisfactory to the Bond Trustee) by or on behalf of the Covered Bondholders of not less than three fourths in Principal Amount Outstanding for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Covered Bondholders of a Series shall, subject as provided below, be binding on all the Covered Bondholders of such Series, whether or not they are present at the meeting, and on all Receiptholders and Couponholders in respect of such Series of Covered Bonds. Pursuant to the Bond Trust Deed, the Bond Trustee may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Bond Trustee there is no conflict between the respective interests of such Covered Bondholders, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9(a) (*Issuer Events of Default*) or to give a Covered Bond Guarantee Acceleration Notice pursuant to Condition 9(b) (*Covered Bond Guarantor Events of Default*) or to direct the Bond Trustee or the Security Trustee or to direct the Bond Trustee to direct the Security Trustee to take any enforcement action or to direct the Bond Trustee to determine that any Issuer Event of Default, Potential Issuer Event of Default, Covered Bond Guarantor Event of Default or Potential Covered Bond Guarantor Event of Default shall not be treated as such for the purposes of the Bond Trust Deed (each a "**Programme Resolution**") shall only be capable of being passed at a single meeting of the Covered Bondholders of all Series then outstanding. Any such meeting to consider a Programme Resolution may be convened by the Issuer, the Guarantor, the Covered Bond Guarantor or the Bond Trustee or by the Covered Bondholders of any Series. The quorum at any such meeting for passing a Programme Resolution is two or

more persons holding or representing at least a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series for the time being outstanding or at any adjourned such meeting two or more persons holding or representing Covered Bonds whatever the Principal Amount Outstanding of the Covered Bonds of any Series so held or represented. A Programme Resolution passed at any meeting of the Covered Bondholders of all Series shall be binding on all the Covered Bondholders of all Series, whether or not they are present at the meeting, and on all related Receiptholders and Couponholders.

In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in NZ dollars, the Principal Amount Outstanding of the Covered Bonds of any Series not denominated in NZ dollars shall be converted into NZ dollars at the relevant Swap Rate.

The Bond Trustee may, without the consent or sanction of any of the Covered Bondholders of any Series, the related Receiptholders and/or the Couponholders and without the consent of the other Secured Creditors, at any time and from time to time, concur with the Issuer, the Guarantor, the Covered Bond Guarantor or any other party or direct the Security Trustee to concur with the Issuer, the Guarantor, the Covered Bond Guarantor or any other party in making any modification of the Covered Bonds of one or more Series, the related Receipts and/or Coupons or any Programme Document:

- (i) which in the opinion of the Bond Trustee may be expedient to make provided the Bond Trustee is of the opinion that such modification is not materially prejudicial to the interests of the Covered Bondholders of any Series but such power does not extend to any such modification referred to in the definition of Series Reserved Matter; or
- (ii) which is in the opinion of the Bond Trustee of a formal, minor or technical nature, or in the opinion of the Bond Trustee is made to correct a manifest error or is made to comply with mandatory provisions of law (and for this purpose the Bond Trustee may disregard whether any such modification relates to a Series Reserved Matter); or
- (iii) (without prejudice to (i) and (ii) above) which is made to enable Covered Bondholders and Secured Creditors or any of them to obtain the protection and/or other benefits of any legislation or regulation or any directive of any regulatory body including, without limitation, the RBNZ that is introduced in New Zealand for the purpose of supporting the issuance of covered bonds provided that the Bond Trustee is of the opinion that such modification will not be materially prejudicial to the interests of the Covered Bondholders of any Series.

Notwithstanding the above the Bond Trustee and the Security Trustee shall not be obliged to agree to any amendment, which, in the sole opinion of the Bond Trustee or the Security Trustee, (as applicable), would have the effect of (x) exposing the Bond Trustee or the Security Trustee, (as applicable), to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (y) increasing the obligations or duties, or decreasing the protections, of the Bond Trustee or the Security Trustee, (as applicable), in the Bond Trust Deed, the other Programme Documents and/or the Conditions.

The Bond Trustee may without the consent of any of the Covered Bondholders of any Series, the related Receiptholders and/or Couponholders and without the consent of any other Secured Creditor and without prejudice to its rights in respect of any subsequent breach, Issuer Event of Default, Potential Issuer Event of Default, Covered Bond Guarantor Event of Default or Potential Covered Bond Guarantor Event of Default from time to time and at any time but only if in so far as in its opinion the interests of the Covered Bondholders of any Series shall not be materially prejudiced thereby, waive or authorise, or direct the Security Trustee to waive or authorise, any breach or proposed breach by the Issuer, the Guarantor or the Covered Bond Guarantor or any other person of any of the covenants or provisions contained in the Bond Trust Deed, the other Programme Documents or the Conditions or determine that any Issuer Event of Default, Potential Issuer Event of Default, Covered Bond Guarantor Event of Default or Potential Covered Bond Guarantor Event of Default shall not be treated as such for the purposes of the Bond Trust Deed, PROVIDED ALWAYS THAT the Bond Trustee shall not exercise any powers conferred on it in contravention of any express direction given by

Extraordinary Resolution or by a request under Condition 9(a) or 9(b) (*Events of Default and Enforcement*) but so that no such direction or request shall affect any waiver, authorisation or determination previously given or made. Any such waiver, authorisation or determination may be given or made on such terms and subject to such conditions (if any) as the Bond Trustee may determine, shall be binding on the Covered Bondholders, the related Receiptholders and/or the Couponholders and, if, but only if, the Bond Trustee shall so require, shall be notified by the Issuer, the Guarantor or the Covered Bond Guarantor (as the case may be) to the Covered Bondholders in accordance with Condition 14 (*Notices*) as soon as practicable thereafter.

Subject to as provided below, the Bond Trustee shall be bound to waive or authorise, or direct the Security Trustee to waive or authorise, any breach or proposed breach by the Issuer, the Guarantor or the Covered Bond Guarantor or any other person of any of the covenants or provisions contained in the Bond Trust Deed, the other Programme Documents or the Conditions or determine that any Issuer Event of Default, Potential Issuer Event of Default, Covered Bond Guarantor Event of Default or Potential Covered Bond Guarantor Event of Default shall not be treated as such for the purposes of the Bond Trust Deed if it is: (i) in the case of such waiver or authorisation, (a) so directed by Extraordinary Resolution of the Covered Bondholders of the relevant one or more Series (with the Covered Bonds of all such Series taken together as a single Series in the circumstances provided in the Bond Trust Deed and, if applicable, converted into NZ dollars at the relevant Swap Rate) or (b) requested to do so in writing by the holders of not less than 25 per cent. of the Principal Amount Outstanding of the Covered Bonds of the relevant one or more Series (with the Covered Bonds of all such Series taken together as a single Series in the circumstances provided in the Bond Trust Deed and, if applicable, converted into NZ dollars at the relevant Swap Rate) or (ii), in the case of any such determination, (a) so directed by an Extraordinary Resolution of the Covered Bondholders of all Series then outstanding with the Covered Bonds of all Series taken together as a single Series and, if applicable, converted into NZ dollars at the relevant Swap Rate) or (b) requested to do so in writing by the holders of not less than 25 per cent. of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding with the Covered Bonds of all Series taken together as a single Series and, if applicable, converted into NZ dollars as aforesaid), and at all times then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing.

The Security Trustee may, without the consent of the Secured Creditors (other than any Secured Creditor who is a party to the relevant document) and without prejudice to its right in respect of any further or other breach, from time to time and at any time, but only if so directed by (a) the Bond Trustee, so long as there are any Covered Bonds outstanding or (b) all of the other Secured Creditors, if there are no Covered Bonds outstanding, authorise or waive any proposed or actual breach of any of the covenants or provisions contained in any Programme Document and/or agree to any modification to any Programme Document. Any such authorisation or waiver or modification shall be binding on the Secured Creditors and, unless the Bond Trustee otherwise agrees, notice thereof shall be given by the Issuer or the Guarantor or the Covered Bond Guarantor (as the case may be) to the Secured Creditors as soon as practicable thereafter.

Any such modification, waiver, authorisation or determination shall be binding on all the Covered Bondholders of all Series of Covered Bonds for the time being outstanding, the related Receiptholders and the Couponholders and the other Secured Creditors, and unless the Bond Trustee otherwise agrees, any such modification shall be notified by the Issuer, to the Covered Bondholders of all Series of Covered Bonds for the time being outstanding and the other Secured Creditors in accordance with Condition 14 (*Notices*) as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Bond Trustee and the Security Trustee shall have regard to the general interests of the Covered Bondholders of each Series as a class (but shall not have regard to any interests arising from circumstances particular to individual Covered Bondholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have

regard to the consequences of any such exercise for individual Covered Bondholders, the related Receipholders, Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Bond Trustee and the Security Trustee shall not be entitled to require, nor shall any Covered Bondholder, Receipholder or Couponholder be entitled to claim, from the Issuer, the Guarantor, the Covered Bond Guarantor, the Bond Trustee, the Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Covered Bondholders, Receipholders and/or Couponholders, except to the extent already provided for in Condition 7 (*Taxation*) and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 7 (*Taxation*) pursuant to the Bond Trust Deed.

Prior to the Bond Trustee and/or the Security Trustee making or granting any waiver, authorisation or determination pursuant to this Condition, the Guarantor must send written confirmation to the Bond Trustee and Security Trustee that: (i) any such waiver, authorisation or determination would not require the RBNZ to be notified; or (ii) if such waiver, authorisation or determination would require the RBNZ to be notified, the Guarantor has provided all information required to be provided to the RBNZ and, if consent or confirmation of non-objection is required, the RBNZ has given its consent or confirmed its non-objection to the proposed waiver, authorisation or determination.

Subject to any required RBNZ consent or confirmation of non-objection, the Bond Trustee and Security Trustee shall concur in and effect any modifications to the Programme Documents that are requested by the Covered Bond Guarantor or the Trust Manager to accommodate the accession of a new Servicer, new Swap Provider or new Agent to the Programme provided that (a) each of the Swap Providers provide written confirmation to the Security Trustee consenting to such modification of those documents to which they are a party (such consent not to be unreasonably withheld); (b) the Covered Bond Guarantor or the Trust Manager, as the case may be, has certified to the Security Trustee and the Bond Trustee in writing that such modifications are required in order to accommodate the addition of the new Servicer, new Swap Provider or new Agent to the Programme; and (c) all other conditions precedent to the accession of the new Servicer, new Swap Provider or new Agent to the Programme set out in the Programme Documents have been satisfied at the time of the accession.

(b) ***Substitution***

The Bond Trust Deed provides that in connection with any scheme of amalgamation or reconstruction of the Issuer or, as the case may be, the Guarantor not involving the bankruptcy or insolvency of the Issuer or, as the case may be, the Guarantor and (A) where the Issuer or, as the case may be, the Guarantor does not survive the amalgamation or reconstruction or (B) where all or substantially all of the assets and business of the Issuer or the Guarantor, as the case may be, will be disposed of to, or succeeded to, by another entity (whether by operation of law or otherwise), the Bond Trustee shall, if requested by the Issuer and (where applicable) the Guarantor, be obliged, without the consent of the Covered Bondholders, Receipholders or Couponholders, at any time to agree to the substitution in the place of (a) the Issuer as principal debtor under the Covered Bonds, Receipts, Coupons and the Bond Trust Deed or (b) the Guarantor as guarantor of Covered Bonds, of another company (the "**Substituted Debtor**") being the entity with and into which the Issuer or the Guarantor, as the case may be, amalgamates or the entity to which all or substantially all of the business and assets of the Issuer or the Guarantor is transferred, or succeeded to, pursuant to such scheme of amalgamation or reconstruction (whether by operation of law or otherwise), subject to, *inter alia*:

- (i) the Substituted Debtor entering into a supplemental trust deed in form and manner satisfactory to the Bond Trustee agreeing to be bound by the Bond Trust Deed with any consequential amendments which the Bond Trustee may deem appropriate as fully as if the Substituted Debtor had been named in the Bond Trust Deed as principal debtor or guarantor in place of the Issuer or the Guarantor, as the case may be;

- (ii) the Substituted Debtor acquiring or succeeding to pursuant to such scheme of amalgamation or reconstruction all or substantially all of the assets and business of the Issuer or the Guarantor, as the case may be;
- (iii) the obligations of the Substituted Debtor being or remaining guaranteed by the Guarantor on the terms set out in the Bond Trust Deed; and
- (iv) confirmations being received by the Bond Trustee from each Rating Agency that the substitution will not adversely affect the rating of the Covered Bonds.

Any such supplemental trust deed or undertaking shall, if so expressed, operate to release the Issuer or the Guarantor, as the case may be, or in either case the previous substitute as aforesaid from all of its obligations as principal debtor or guarantor, as the case may be, under the Bond Trust Deed.

In addition, subject as further provided in the Bond Trust Deed, the Bond Trustee may without the consent of the Covered Bondholders, Receiptholders or Couponholders at any time agree with the Issuer and the Guarantor to the substitution in place of the Issuer (or any previous substitute under this Condition) as the principal debtor under the Covered Bonds, Receipts, Coupons and the Bond Trust Deed of any Subsidiary of the Issuer or the Guarantor subject to (a) all amounts payable under the Bond Trust Deed continuing to be guaranteed by the Guarantor, (b) the Bond Trustee being satisfied that the interests of the Covered Bondholders will not be materially prejudiced by the substitution and (c) certain other conditions set out in the Bond Trust Deed being complied with.

Any substitution pursuant to this Condition 11(b) shall be binding on the Covered Bondholders, the Receiptholders and the Couponholders and, unless the Bond Trustee agrees otherwise, shall be notified by the Issuer to the Covered Bondholders not later than 14 days after any such substitution in accordance with Condition 14 (*Notices*).

It shall be a condition of any substitution pursuant to this Condition 11(b) that the Covered Bond Guarantee shall remain in place or be modified to apply *mutatis mutandis* and continue in full force and effect in relation to any Substituted Debtor.

(c) ***Rating Agencies***

If:

- (i) a confirmation or affirmation of rating or other response by a Rating Agency is a condition to any action or step under any Programme Document; and
- (ii) the Trust Manager has delivered to the Covered Bond Guarantor (copied to the Seller and each Rating Agency) written confirmation that it has notified the Rating Agencies of the action or step and that the Trust Manager is satisfied, following discussions with the Rating Agencies, that the action or step, as applicable, will not result in a reduction, qualification or withdrawal of the ratings then assigned by the Rating Agencies and the Rating Agency does not consider such confirmation necessary,

the parties shall be entitled to assume that the then current rating of the Covered Bonds from that Rating Agency will not be downgraded or withdrawn by such Rating Agency as a result of such action or step.

The Bond Trustee shall be entitled to treat as conclusive a certificate signed by an Authorised Signatory of the Issuer or the Covered Bond Guarantor as to any matter referred to in (ii) above and the Bond Trustee shall not be responsible for any loss, liabilities, costs, damages, expenses or inconvenience that may be caused as a result.

(d) ***Legislative Exchange***

Following the coming into force in New Zealand, at any time after the Programme Date, of any legislation, rules, regulations or guidelines published by any governmental authority that provide for the regulation of covered bonds issued by New Zealand issuers, each Issuer may

agree with the Bond Trustee and without the consent of the Security Trustee, the Covered Bondholders, the Receiptholders or the Couponholders, to exchange, provided that such exchange is necessary in the opinion of the Issuer (as certified to the Bond Trustee in accordance with Condition 11(d)(ii) below) for the Covered Bonds to comply with any new legislation, rules, regulations or guidelines and such compliance cannot be attained through the modification of the Programme Documents, all (but not some only) of the Covered Bonds of all Series then outstanding (the "**Existing Covered Bonds**") for new Covered Bonds which are regulated by such new legislation, rules, regulations or guidelines (the "**New Covered Bonds**") and to the extent permitted by such new legislation, rules, regulations or guidelines, are in identical form, amount and denomination as the Existing Covered Bonds and on the same economic terms and conditions as the Existing Covered Bonds (the "**Legislative Exchange**") if not more than 60 nor less than 30-days' notice to the Covered Bondholders (in accordance with Condition 14 (*Notices*)), the Bond Trustee and the Principal Paying Agent is given by each Issuer and provided that:

- (i) on the date on which such notice expires each Issuer delivers to the Bond Trustee a certificate signed by two Directors of such Issuer confirming that (a) no Issuer Event of Default (as defined in Condition 9 (*Events of Default and Enforcement*)) or Potential Issuer Event of Default (as defined in this Condition 11) and (b) no Covered Bond Guarantor Event of Default (as defined in Condition 9 (*Events of Default and Enforcement*)) or Potential Covered Bond Guarantor Event of Default (as defined in this Condition 11), shall have occurred and be continuing (disregarding for the purposes of this certificate any such event which occurs or which has occurred due to the implementation of such legislation, rules, regulations or guidelines);
- (ii) each Issuer delivers to the Bond Trustee a certificate signed by two directors of such Issuer certifying that the New Covered Bonds are in identical form, amount and denomination as the Existing Covered Bonds to the extent permitted by such new legislation, rules, regulations or guidelines and that such exchange is necessary in the opinion of the Issuer for the Covered Bonds to comply with the new legislation, rules, regulations or guidelines;
- (iii) each Issuer will comply with such other requirements as the Bond Trustee may direct in the interests of Covered Bondholders;
- (iv) the documents constituting the New Covered Bonds are in form and substance satisfactory to the Bond Trustee;
- (v) each Rating Agency which has previously assigned a rating to the Existing Covered Bonds confirms to the Relevant Issuer in writing that the New Covered Bonds will be assigned the same rating as is then applicable to the Existing Covered Bonds;
- (vi) if the Existing Covered Bonds are listed, quoted and/or traded on or by a competent and/or relevant listing authority, stock exchange and/or quotation system on or before the date on which such notice expires, each Issuer delivers to the Bond Trustee a certificate signed by two Directors of such Issuer confirming that all applicable rules of such competent and/or relevant listing authority, stock exchange and/or quotation system have been or will be complied with (or compliance with such rules has been waived by the relevant listing authority, stock exchange and/or quotation system); and
- (vii) each Issuer will procure delivery of legal opinions addressed to the Bond Trustee on the date of such exchange, in form and content satisfactory to the Trustee as to such law as the Bond Trustee may request.

The Existing Covered Bonds will be cancelled concurrently with the issue of the New Covered Bonds and with effect on and from the date of issue thereof all references herein to Covered Bonds shall be deemed to be references to the New Covered Bonds and the Bond Trustee may, pursuant to the provisions described in this Condition 11, agree with the Relevant Issuer and the Covered Bond Guarantor such modifications to the Programme Documents as may be necessary for the issue of the New Covered Bonds under the new legislation, rules, regulations or guidelines.

For the purposes of this Condition 11:

"Potential Issuer Event of Default" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Issuer Event of Default;

"Potential Covered Bond Guarantor Event of Default" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute a Covered Bond Guarantor Event of Default; and

"Series Reserved Matter" in relation to Covered Bonds of a Series means any proposal:

- (i) to amend the dates of maturity or redemption of the Covered Bonds, or any date for payment of interest or Interest Amounts on the Covered Bonds or the obligation of the Issuer to pay additional amounts pursuant to Condition 7 (*Taxation*), (ii) to reduce or cancel the Principal Amount Outstanding of, or any premium payable on redemption of, the Covered Bonds, (iii) to reduce the rate or rates of interest in respect of the Covered Bonds or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Covered Bonds, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount is set out in the Pricing Supplement, to reduce any such amount, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or Specified Denomination of the Covered Bonds, (vii) to take any steps that as specified in the Pricing Supplement may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, or (viii) to modify the provisions concerning the quorum required at any meeting of Covered Bondholders or the majority required to pass the Extraordinary Resolution.

12. **Replacement of Covered Bonds, Receipts, Coupons and Talons and Exchange of Talons**

- (a) Should any Covered Bond, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced subject to applicable laws, regulations and listing authority, stock exchange and/or quotation system regulations at the specified office of the Principal Paying Agent in London (in the case of Bearer Covered Bonds, Receipts, Coupons or Talons) or the specified office of the relevant Registrar (in the case of Registered Covered Bonds), or any other place approved by the Bond Trustee of which notice shall have been published in accordance with Condition 14 (*Notices*) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Covered Bond, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Covered Bonds, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Covered Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.
- (b) On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 8 (*Prescription*).

13. **Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Covered Bondholders, the Receiptholders or the Couponholders to create and issue further bonds having terms and conditions the same as the Covered Bonds of any Series or the same in all respects save for the amount and date of the first payment of interest thereon, issue date and/or purchase price and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds of such Series.

14. **Notices**

All notices regarding the Bearer Covered Bonds will be valid if published in a leading English language daily newspaper of general circulation in London. It is expected that any such newspaper publication will be made in the Financial Times in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Bearer Covered Bonds are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers or where published in such newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Bond Trustee shall approve.

All notices regarding the Registered Covered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Covered Bonds are admitted to trading on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any Definitive Covered Bonds are issued, there may, so long as the Covered Bonds are represented in their entirety by any Global Covered Bonds held on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) or such mailing the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the Covered Bondholders and, in addition, for so long as any Covered Bonds are listed on a stock exchange or admitted to trading by any other relevant authority and the rules of that stock exchange, or as the case may be, other relevant authority so require, such notice or notices will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the Covered Bondholders on the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Covered Bondholder shall be in writing and given by lodging the same, together (in the case of any Covered Bond in definitive form) with the relative Covered Bond or Covered Bonds, with the Agent (in the case of the Bearer Covered Bonds) or the relevant Registrar (in the case of Registered Covered Bonds). Whilst any of the Covered Bonds are represented by a Global Covered Bond, such notice may be given by any holder of a Covered Bond to the Principal Paying Agent or the relevant Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the relevant Registrar and/or Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

15. **Indemnification of the Bond Trustee and the Security Trustee and the Bond Trustee and Security Trustee contracting with an Issuer, the Guarantor and/or the Covered Bond Guarantor**

If, in connection with the exercise of its powers, trusts, authorities or discretions the Bond Trustee is of the opinion that the interests of the Covered Bondholders of any one or more series would be materially prejudiced thereby, the Bond Trustee shall not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders of the relevant Series by Extraordinary Resolution or by a direction in writing of such Covered Bondholders

of at least 25 per cent. of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding or as otherwise required under the Programme Documents.

The Bond Trust Deed and the Security Deed contain provisions for the indemnification of the Bond Trustee and the Security Trustee and for their relief from responsibility, including provisions relieving them from taking any action unless indemnified and/or secured and/or prefunded to their satisfaction.

The Bond Trust Deed and the Security Deed also contain provisions pursuant to which each of the Bond Trustee and Security Trustee, respectively, is entitled, *inter alia*: (i) to enter into business transactions with an Issuer, the Guarantor, the Covered Bond Guarantor and/or any of their respective Subsidiaries and affiliates and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, an Issuer, the Guarantor, the Covered Bond Guarantor and/or any of their respective Subsidiaries and affiliates; (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Covered Bondholders, Receiptholders or Couponholders or the other Secured Creditors; and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

Neither the Bond Trustee nor the Security Trustee will be responsible for any loss, expense or liability which may be suffered as a result of any Housing Loans or Related Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons whether or not on behalf of the Bond Trustee and/or the Security Trustee. Neither the Bond Trustee nor the Security Trustee will be responsible for *inter alia*: (i) supervising the performance by an Issuer, the Guarantor or any other party to the Programme Documents or any Independent Adviser of their respective obligations under the Programme Documents and the Bond Trustee and the Security Trustee will be entitled to assume, until they each have written notice to the contrary, that all such persons are properly performing their duties; (ii) considering the basis on which approvals or consents are granted by an Issuer, the Guarantor or any other party to the Programme Documents under the Programme Documents; (iii) monitoring the Housing Loan Portfolio, including, without limitation, whether the Housing Loan Portfolio is in compliance with the Asset Coverage Test, the Pre-Maturity Test or the Amortisation Test; or (iv) monitoring whether Housing Loans are Qualifying Housing Loans. Neither the Bond Trustee nor the Security Trustee will be liable to any Covered Bondholder or other Secured Creditor for (a) any failure to make or to cause to be made on their behalf the searches, investigations and enquiries which would normally be made by a prudent secured creditor in relation to the Security and have no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Programme Documents or (b) the acts of omissions of any Independent Adviser.

The Bond Trustee may refrain from taking any action or exercising any right, power, authority or discretion vested in it relating to the transactions contemplated in the Programme Documents until it has been indemnified and/or secured and/or prefunded to its satisfaction against any and all actions, charges, claims, costs, damages, demands, expenses, liabilities, losses and proceedings which might be sustained by it as a result and will not be required to do anything which may cause it to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights, powers, authorities or discretions if it has reasonable grounds for believing that repayment of such funds or adequate indemnity, security or prefunding against such liability is not assured to it.

16. **Limited Recourse and non-petition**

- (a) Only the Security Trustee may pursue the remedies available under the general law or under the Security Deed to enforce the Security and no Transaction Party shall be entitled to proceed directly against the Covered Bond Guarantor to enforce the Security. In particular, each Transaction Party (other than the Covered Bond Guarantor and the Security Trustee) has agreed with and acknowledges to each of the Covered Bond Guarantor and the Security

Trustee, and the Security Trustee agreed with and acknowledged to the Covered Bond Guarantor, that:

- (i) none of the Transaction Parties (nor any person on their behalf, other than the Security Trustee where appropriate) is entitled, otherwise than as permitted by the Programme Documents, to direct the Security Trustee to enforce the Security or take any proceedings against the Covered Bond Guarantor to enforce the Security;
 - (ii) none of the Transaction Parties (other than the Security Trustee) shall have the right to take or join any person in taking any steps against the Covered Bond Guarantor for the purpose of obtaining payment of any amount due from the Covered Bond Guarantor to any of such Transaction Parties;
 - (iii) until the date falling two years after the Vesting Date none of the Transaction Parties nor any person on their behalf shall initiate or join any person in initiating an Insolvency Event in relation to the Trust other than a Receiver appointed under clause 15 of the Security Deed; and
 - (iv) none of the Transaction Parties shall be entitled to take or join in the taking of any corporate action, legal proceedings or other procedure or step which would result in the Priorities of Payments not being complied with.
- (b) The Covered Bondholders agree with and acknowledge to each of the Covered Bond Guarantor and the Security Trustee, and the Security Trustee has agreed with and acknowledged to the Covered Bond Guarantor, that notwithstanding any other provision of any Programme Document, all obligations of the Covered Bond Guarantor to such party including, without limitation, the Secured Obligations, are limited in recourse to the Covered Bond Guarantor as set out below:
- (i) it will have a claim only in respect of the Charged Property and will not have any claim, by operation of law or otherwise, against, or recourse to, any of the Covered Bond Guarantor's other assets;
 - (ii) sums payable to each party in terms of the Covered Bond Guarantor's obligations to such party shall be limited to the lesser of (a) the aggregate amount of all sums due and payable to such party and (b) the aggregate amounts received, realised or otherwise recovered and immediately available for payment by or for the account of the Covered Bond Guarantor in respect of the Charged Property whether pursuant to enforcement of the Security or otherwise, net of any sums which are payable by the Covered Bond Guarantor in accordance with the Priorities of Payments in priority to or *pari passu* with sums payable to such party; and
 - (iii) upon the Security Trustee giving written notice to the relevant party that it has determined in its opinion, and the Servicer having certified to the Security Trustee, that there is no reasonable likelihood of there being any further realisations in respect of the Charged Property (whether arising from an enforcement of the Security or otherwise) which would be available to pay unpaid amounts outstanding under the relevant Programme Document, the relevant party shall have no further claim against the Covered Bond Guarantor in respect of any such unpaid amounts and the obligations to pay such unpaid amounts shall be discharged in full.
- (c) To the extent permitted by law, no recourse under any obligation, covenant, or agreement of any person contained in the Programme Documents shall be had against any shareholder, officer, agent or director of such person as such, by the enforcement of any assessment or by any legal proceeding, by virtue of any statute or otherwise; it being expressly agreed and understood that the Programme Documents are corporate obligations of each person expressed to be a party thereto and no personal liability shall attach to or be incurred by the shareholders, officers, agents or directors of such person as such, or any of them, under or by reason of any of the obligations, covenants or agreements of such person contained in the Programme Documents, or implied therefrom, and that any and all personal liability for breaches by such person of any of such obligations, covenants or agreements, either under any applicable law or

by statute or constitution, of every such shareholder, officer, agent or director is expressly waived by each person expressed to be a party thereto as a condition of and consideration for execution of the Programme Documents.

17. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of this Covered Bond under the Contracts (Rights of Third Parties) Act 1999.

18. **Governing Law**

The Bond Trust Deed (including the Guarantee and the Covered Bond Guarantee), the Principal Agency Agreement, the Covered Bonds, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law unless specifically stated to the contrary.

19. **Jurisdiction**

Each of the Issuers and the Guarantor agrees for the benefit of the holders of Covered Bonds, Receipts, Coupons and Talons that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Covered Bonds and all matters connected with the Covered Bonds, Receipts, Coupons and Talons (including a dispute relating to any non-contractual obligation arising out of or in connection with them) (respectively, "**Proceedings**" and "**Disputes**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

20. **Service of process**

Each of the Issuers and the Guarantor agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to the officer in charge of the London branch of Australia and New Zealand Banking Group Limited at 40 Bank Street, Canary Wharf, London E14 5EJ. If such person is not or ceases to be effectively appointed to accept service of process on the Issuer's or the Guarantor's behalf, the Issuer or the Guarantor, as applicable, shall appoint a further person in England to accept service of process on the Issuer's or the Guarantor's behalf and, failing such appointment, within 15 days, the Bond Trustee shall be entitled to appoint such a person by written notice addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the specified office of the Principal Paying Agent. Nothing in this paragraph shall affect the right of the Bond Trustee to serve process in any other manner permitted by law.

SCHEDULE B -

FORM OF PRICING SUPPLEMENT

The form of Pricing Supplement in respect of each Tranche of Non-PD Covered Bonds is set out below:

This Pricing Supplement has not been reviewed or approved by the FCA and the Covered Bonds the subject of this Pricing Supplement are not Prospectus Directive compliant.

Prohibition of Sales to EEA Retail Investors: The Covered Bonds 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**"); (ii) a customer within the meaning of Directive 2002/92/EC, as amended ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore

offering or selling the Covered Bonds 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 Dealer's/the Managers'/each relevant Manager's] product approval process as [a] MiFID II [(as defined below)] "manufacturer[s]", the target market assessment completed by the relevant [Dealer/Managers/Manager] in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")][MiFID II]; and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. [Consider any negative target market]. Any person subsequently offering, selling or recommending the Covered Bonds (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 Covered Bonds (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 an EU Member State. The Issuer 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 Covered Bonds described in this legend).]

Dated [●]

[ANZ Bank New Zealand Limited/ANZ New Zealand (Int'l) Limited]

**Issue of [Aggregate Principal Amount of Tranche] [Title of Covered Bonds]
[unconditionally guaranteed by ANZ Bank New Zealand Limited and]
irrevocably and unconditionally guaranteed as to payment of principal and interest by**

**ANZNZ Covered Bond Trust Limited under the
€8,000,000,000 Covered Bond Programme**

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the information memorandum dated 3 August 2018 [and the supplement[s] to it dated [●] and [●]] (the "**Information Memorandum**"). This document constitutes the Pricing Supplement of the Covered Bonds described herein and must be read in conjunction with the Information Memorandum. Full information on the Issuer[, the Guarantor] and the Covered Bond Guarantor and the offer of the Covered Bonds is only available on the basis of the combination of this Pricing Supplement and the Information Memorandum.] / [Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "**Conditions**") set forth in the prospectus dated 3 August 2018 which are incorporated by reference in the information memorandum dated 3 August 2018 [and the supplement[s] to it dated [●] [and [●]] (the "**Information Memorandum**"). This document constitutes the Pricing Supplement of the Covered Bonds described herein and must be read in conjunction with the Information Memorandum, including the Conditions incorporated by reference in the Information Memorandum. Full information on the Issuer[, the Guarantor] and the Covered Bond Guarantor and the offer of the Covered Bonds is only available on the basis of the combination of this Pricing Supplement and the Information Memorandum.]

1. (a) Branch: [●][Not Applicable]
- (b) Series Number: [●]
- (c) Tranche Number: [●]
- (d) Date on which the Covered Bonds will be consolidated and form a single Series: [The Covered Bonds will be consolidated and form a single Series with [●] on [the Issue Date]/[exchange of the Temporary Global Covered Bond for interests in the Permanent Global Covered Bond, as referred to in paragraph [●] below], which is expected to occur

- on or about [●]/[Not Applicable]
2. Specified Currency: [●]
 3. Aggregate Principal Amount of Covered Bonds:
 - (a) Series: [●]
 - (b) Tranche: [●]
 4. Issue Price: [●]% of the Aggregate Principal Amount [plus accrued interest from [●]]
 5. (a) Specified Denominations: [●]/[€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No Covered Bonds in definitive form will be issued with a denomination above €199,000]/[US\$200,000 and integral multiples of US\$1,000 in excess thereof]
 - (b) Calculation Amount: [●]
 6. (a) Issue Date: [●]
 - (b) Interest Commencement Date: [●]/[Issue Date]/[Not Applicable]
 7. (a) Final Maturity Date: [●]/[Interest Payment Date falling in or nearest to [●]]
 - (b) Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee: [●]/[Interest Payment Date falling in or nearest to [●]]/[Not Applicable]
 8. (a) Interest Basis: [[●]% Fixed Rate]
 [[●] +/- [●]% Floating Rate]
 [Zero Coupon]
 9. Redemption Basis: [99]/[100]/[101]% of their nominal amount
 10. Payment Basis:
 - (a) Instalment Covered Bonds [Applicable/Not Applicable]
 - (i) [Instalment Date(s): [●]
 - (ii) Instalment Amount(s): [●]
 - (b) Hard Bullet Covered Bonds: [Application/Not Applicable]
 11. Change of Interest Basis: [●] in accordance with paragraphs 14 and 15
 12. Put/Call Options: [Investor Put]
 [Issuer Call]
 13. [Date of [Board] approval for issuance of Covered Bonds and Guarantees obtained: [●] [and [●], respectively]]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14. Fixed Rate Covered Bond provisions: [Applicable/Not Applicable]
- (a) [Rate(s) of Interest]: [●]% per annum payable in arrears on each Interest Payment Date
- (b) Interest Payment Date(s): [●] in each year up to and including the Maturity Date or the Extended Due for Payment Date, if applicable
- (c) Fixed Coupon Amount(s): [●] per Calculation Amount
- (d) Broken Amount(s): [●] per Calculation Amount, payable on the Interest Amount falling [in/on][●]/[Not Applicable]
- (e) Day Amount Fraction: [Actual/Actual (ICMA)] [30/360]
- (f) [Determination Date(s): [[●] in each year]/[Not Applicable]]
15. Floating Rate Covered Bond provisions: [Applicable/Not Applicable]
- (a) [Specify Period(s): [●]
- (b) Interest Payment Dates: [●], subject to adjustment in accordance with the Business Day Convention set out below]
- (c) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (d) Additional Business Convention: [●]
- (e) Manner in which the Rate of Interest and Interest Amount are to be determined: [Screen Rate Determination/ISDA Determination/BBSW Covered Bonds/BKBM Covered Bonds]
- (f) Party responsible for calculating the Rate of Interest and Interest Amount (if not the [Principal Paying Agent/ Calculation Agent]): [●]
- (g) Screen Rate Determination: [Applicable/Not Applicable]
- (A) Reference Rate and Relevant Financial Centre: Reference Rate: [●] month [●] [LIBOR] / [EURIBOR] / [STIBOR] / [HIBOR] / [TIBOR] / [BBSW] / BKBM
Relevant Financial Centre: [London] / [Brussels] / [Stockholm]/[Hong Kong]/[Singapore]/[Tokyo]/ [Sydney]/[Wellington]/[Auckland]
- (B) Interest Determination Date(s): [●]
- (C) Relevant Screen Page: [●]
- (D) Relevant Time and time zone: [●]
- (h) ISDA Determination: [Applicable/Not Applicable]

- | | | |
|-----|---|--|
| | Floating Rate Option: | [●] |
| | Designated Maturity: | [●] |
| | Reset Date: | [●] |
| (i) | Margin(s): | [+/-] [●]% per annum |
| (j) | Minimum Rate of Interest: | [●]% per annum |
| (k) | Maximum Rate of Interest: | [●]% per annum |
| (l) | Day Count Fraction: | [Actual/Actual (ISDA)] [Actual/Actual]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360] [360/360] [Bond Basis]
[30E/360] [Eurobond Basis]
30E/360 (ISDA)
[adjusted/not adjusted]] |
| 16. | Zero Coupon Covered Bond provisions: | [Applicable/Not Applicable] |
| (a) | Accrual Yield: | [●]% per annum |
| (b) | Reference Price: | [●] |
| (c) | Day Count Fraction in relation to Early Redemption Amounts: | [Actual/360]
[Actual/365]] |

PROVISIONS RELATING TO REDEMPTION

- | | | |
|------|---|--|
| 17. | Notice periods for Condition 5(b) (<i>Redemption for tax reasons</i>) or Condition 5(e) (<i>Redemption due to illegality</i>) | Maximum period: [60] days
Minimum period: [30] days |
| 18. | Redemption at the option of the Issuer (Call): | [Applicable/Not Applicable] |
| (a) | [Optional Redemption Date(s) (Call): | [●] |
| (b) | Series redeemable in part: | [Yes/No] |
| (c) | Optional Redemption Amount: | [[●] per Calculation Amount] |
| (d) | If redeemable in part: | |
| (i) | Minimum Redemption Amount: | [●] |
| (ii) | Maximum Redemption Amount: | [●] |
| (e) | Notice Period for Condition 5(c) (<i>Redemption at the option of the</i> | Minimum period: [5] days |

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]

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