Offering Memorandum February 4, 2020

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

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

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

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

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

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

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

Investing in the Notes involves risks. See **"Risk Factors"** beginning on page 26 of this Offering Memorandum.

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

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

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

The Notes are not protected accounts or deposit liabilities of the Issuers and, except as expressly stated in this Offering Memorandum, are not insured or guaranteed by (1) the Crown or any governmental agency of New Zealand, (2) the

United States of America, the Federal Deposit Insurance Corporation (the "**FDIC**") or any other governmental agency of the United States or (3) the government or any government agency of any other jurisdiction.

Application has been made to the United Kingdom's Financial Conduct Authority (the "**FCA**") in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended (the "**FSMA**"), for Notes issued within the period of 12 months from the date of this Offering Memorandum to be admitted to the official list of the FCA (the "**Official List**") and an application will be made to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market. In this Offering Memorandum, references to Notes being "**listed**" will mean that such Notes have been admitted to the Official List and have been admitted to trading on the London Stock Exchange's Regulated Market. The London Stock Exchange's Regulated Market is a "regulated market", for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended ("**MiFID II**").

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

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

In the case of any Notes which are to be offered to the public in a Member State of the European Economic Area (the "**EEA**") (each, a "**Member State**") or in the United Kingdom (the "**UK**") in circumstances which would otherwise require the publication of a prospectus under Article 3 of Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"), the minimum denomination at the issue date shall be no less than €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

This Offering Memorandum supersedes and replaces in its entirety all previous offering memoranda relating to this program. This Offering Memorandum has been approved by the FCA, as competent authority under the Prospectus Regulation as a base prospectus for the purposes of Article 8 of the Prospectus Regulation. The FCA only approves this Offering Memorandum as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuers, the Guarantor and the quality of the securities that are the subject of this Offering Memorandum. Investors should make their own assessment as to the suitability of investing in any such Notes.

The credit ratings referred to in this Offering Memorandum in respect of ANZ New Zealand have been issued, and the credit ratings in respect of the Notes (when issued) will be issued, by one or more of S&P Global Ratings Australia Pty Ltd. **("S&P")**, **Moody's** Investors Service Pty Limited **("Moody's"),** and Fitch Australia Pty Ltd **("Fitch").** None of S&P, **Moody's** and Fitch is established in the European Union **("EU")** and none has applied for registration under Regulation (EC) No. 1060/2009 (as amended by Regulation (EC) No. 513/2011) (the **"CRA Regulation")** but their credit ratings are endorsed on an ongoing basis by Standard & **Poor's** Credit Market Services Europe Limited, **Moody's** Investors Service Ltd and Fitch Ratings Limited, respectively, pursuant to and in accordance with the CRA Regulation. Standard & **Poor's** Credit Market Services Europe Limited, **Moody's** Investors Service Ltd and Fitch Ratings Limited are established in the EU and are registered under the CRA Regulation.

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

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EU and registered under the CRA Regulation or issued by a credit rating agency established in a third country but whose credit ratings are endorsed by a credit rating agency established in the EU and registered under the CRA Regulation, unless the rating is provided by a credit rating agency operating in the EU before June 7, 2010 **("European Entity")** which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused, or is provided by a third party country rating entity whose ratings are disclosed in that registration application as being ratings that will be endorsed by the European Entity. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

Arranger and Lead Agent

J.P. Morgan

Agents

ANZ Securities	Citigroup	Morgan Stanley
Barclays	Deutsche Bank Securities	RBC Capital Markets
BofA Securities	Goldman Sachs & Co. LLC	Wells Fargo Securities
	HSBC	

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Notice to Purchasers

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

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

(1) The Notes and the Guarantee have not been and will not be registered under the Securities Act or any other applicable securities law and, accordingly, neither the Notes nor the Guarantee may be offered, sold, transferred, pledged, encumbered or otherwise disposed of unless in a transaction exempt from registration under the Securities Act and any other applicable securities law.

(2) (A) It is a QIB, and is purchasing for its own account or solely for the account of one or more QIBs for which it acts as a fiduciary or agent, and such purchaser acknowledges that it is aware that the seller may rely upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A thereunder or (B) it is a purchaser acquiring such Notes in an offshore transaction within the meaning of Regulation S that is not a "U.S. person" (and is not acquiring such Notes for the account or benefit of a U.S. person) within the meaning of Regulation S.

(3) It agrees on its own behalf and on behalf of any account for which it is purchasing Notes, to offer, sell or otherwise transfer such Notes (A) only in minimum principal amounts of US$200,000 or such larger principal amounts as shall be specified in the relevant Final Terms as the minimum denomination for the Notes of a relevant Tranche (or, in either case, the equivalent thereof in another currency or composite currency) and (B) prior to the date that is one year after the later of (i) the issue date of such Notes and (ii) the last date on which the Issuer thereof or any affiliate of the Issuer was the beneficial owner of such Notes (or any predecessor of such Notes) only (a) pursuant to the exemption from the registration requirements of the Securities Act provided by either Rule 144A or Regulation S, (b) to the Issuer, ANZ New Zealand (in the case of ANZNIL Notes) or any of their respective subsidiaries or an Agent that is a party to the Amended and Restated Distribution Agreement, dated as of January 20, 2015, among ANZ New Zealand, ANZNIL and the Agents named therein, as amended from time to time (the "Distribution Agreement") or (c) pursuant to an exemption from such registration requirements as confirmed in an opinion of counsel satisfactory to such Issuer and ANZ New Zealand (in the case of ANZNIL Notes). It acknowledges that each Note will contain a legend substantially to the effect of the foregoing paragraph (1) and this paragraph (3).

(4) It acknowledges that the Fiscal Agent referred to herein will register the transfer of any Note resold or otherwise transferred by such purchaser pursuant to clause (c) of the foregoing paragraph (3) only upon receipt of an opinion of counsel satisfactory to the Issuer and ANZ New Zealand (in the case of ANZNIL Notes).

(5) It acknowledges that the Issuers, the Agents and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and it agrees that, if any of the acknowledgments, representations or warranties deemed to have been made by it in connection with its purchase of Notes are no longer accurate, it shall promptly notify the Issuer of such Notes, ANZ New Zealand (in the case of ANZNIL Notes) and the Agent through which it purchased any Notes. If it is acquiring any Notes as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

(6) Either (a) it is not a pension, profit-sharing or other employee benefit plan that is subject to the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA") or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), or any similar provision of applicable federal, state, local, foreign or other law, and it is not purchasing the Notes on behalf of or with the assets of any such plan or (b) its purchase and holding of the Notes, or exercise of any right thereunder, will not result in a non-exempt prohibited transaction for purposes of ERISA, the Code or, where applicable, any such similar law.

(7) PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS - The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA or in the UK. For these purposes, a retail investor means a person who is one (or more) of: (A) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (B) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No. 1286/2014, as amended (the "PRIIPs Regulation") for offering or selling the

Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

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

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

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

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

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

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

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

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

Each of the Issuers and the Guarantor accepts responsibility for the information contained in this document and to the best of the knowledge of each of the Issuers and the Guarantor, the information contained in this document is in accordance with the facts and this document does not omit anything likely to affect the import of such information.

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

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

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

Available Information

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

The disclosure statements of the ANZ New Zealand Group for the financial year ended September 30, 2019 (the "2019 Disclosure Statement") and the financial year ended September 30, 2018 (the "2018 Disclosure Statement" and together with the 2019 Disclosure Statement, the "Disclosure Statements"), which contain the audited consolidated financial statements of the ANZ New Zealand Group as at and for the financial years ended September 30, 2019 (the "2019 ANZ New Zealand Financial Statements"), 2018 (the "2018 ANZ New Zealand Financial Statements") and 2017 (collectively, the "ANZ New Zealand Financial Statements"), are attached to this Offering Memorandum as Annex A. Information in each Disclosure Statement is superseded by information contained in each subsequent Disclosure Statement, and the information in each of the Disclosure Statements is superseded by information contained in this Offering Memorandum, including any amendment hereof or supplement hereto, in each case to the extent there are any inconsistencies.

The audited financial statements of ANZNIL as at and for the financial years ended September 30, 2019 and 2018 (the "ANZNIL Financial Statements") are attached to this Offering Memorandum as Annex A-1.

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

If at any time the Issuers shall be required to prepare a supplementary prospectus pursuant to Article 23(1) of the Prospectus Regulation, the Issuers will prepare and make available a supplement to this Offering Memorandum or a further Offering Memorandum which, in the case of a supplement in respect of any subsequent issue of Notes to be admitted to the Official List of the FCA, will constitute a supplementary prospectus as required by the FCA and Article 23(1) of the Prospectus Regulation.

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

Certain Defined Terms

In this Offering Memorandum, unless the context otherwise requires:

- references to the "ANZ New Zealand Group" are to ANZ New Zealand and its consolidated subsidiaries (including, among others, ANZNIL);
- references to "ADI" are to an authorized deposit-taking institution;
- references to "ANZ New Zealand", the "Bank" or the "Guarantor" are to ANZ Bank New Zealand Limited or, prior to October 29, 2012, but after June 28, 2004, ANZ National Bank Limited, and prior to June 28, 2004, ANZ Banking Group (New Zealand) Limited;
- references to "ANZNIL" are to ANZ New Zealand (Int'l) Limited, formerly ANZ National (Int'l) Limited and NBNZ International Limited;
- references to "ANZBGL" are to the ANZ New Zealand Group's ultimate parent, Australia and New Zealand Banking Group Limited;
- references to "ANZ Group" and "Group" are to ANZBGL together with its consolidated subsidiaries (including, among others, ANZ New Zealand and ANZNIL);
- references to "ANZ" are to the ANZ New Zealand Group's ANZ brand;
- references to "APRA" are to the Australian Prudential Regulation Authority;
- references to "CommAgri" or "CommAgri business" are to ANZ New Zealand Group's commercial and agricultural business in the Commercial segment;
- references to "Final Terms" are to a supplement hereto, which shall be substantially in the form attached hereto as Annex B, describing the specific terms of a particular Tranche of Notes;
- references to the "Fiscal Agency Agreement" are to the fiscal agency agreement, dated as at March 15, 2005, as amended, among ANZ New Zealand, ANZNIL and The Bank of New York Mellon, as Fiscal Agent;
- references to "holder" are to a registered holder of Notes, as described under "Description of the Notes and the Guarantee";
- references to "legislation" include any amendments, re-enactments or replacement of legislation;
- references to "LVR" are to loan-to-value ratio;
- references to the "New Zealand branch of ANZBGL" and the "New Zealand branch" are to the New Zealand branch established by ANZBGL that was registered on January 5, 2009;
- references to the "Noon Buying Rate" are to the noon buying rate in New York City for cable transfers in New Zealand Dollars as certified for customs purposes by the Federal Reserve Bank of New York;
- references to "Obligor" are to any of the Issuers or the Guarantor;
- references to "OECD" are to the Organization for Economic Co-operation and Development;
- references to this "Offering Memorandum" are to this offering memorandum, the annexes hereto and any supplement hereto;
- references to "RBNZ" are to the Reserve Bank of New Zealand;
- references to "Reserve Bank Act" are to the Reserve Bank of New Zealand Act 1989;
- references to "Retail" are to ANZ New Zealand's retail banking business, including its branch network;
- references to "RMBS" are to residential mortgage backed securities;
- references to "2019" are to the ANZ New Zealand Group's financial year ended September 30, 2019, and references to "2018" and other years have a comparable meaning;

- references to "Wealth" or "Wealth business" are to the ANZ New Zealand Group's funds management business. Wealth also includes ANZ New Zealand's private banking business;
- references to "Wealth Australia" are to ANZBGL's wealth division;
- references to "$", "New Zealand dollars", "NZ$", "NZD" or "NZ dollars" are to the lawful currency of New Zealand;
- references to "A$" or "Australian dollars" are to the lawful currency of Australia;
- references to "€" or "euro" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the EU as amended from time to time; and
- references to "US$" or "U.S. dollars" are to the lawful currency of the United States.

Forward-Looking Statements

This Offering Memorandum may contain various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of ANZ New Zealand or the ANZ New Zealand Group to differ materially from the information presented herein. When used in this Offering Memorandum, the words "forecast", "estimate", "project", "intend", "anticipate", "believe", "expect", "may", "probability", "probably", "risk", "will", "seek", "would", "could", "should" and similar expressions, as they relate to ANZ New Zealand or the ANZ New Zealand Group and its management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as at the date hereof. Such statements constitute "forward-looking statements" for the purposes of the U.S. Private Securities Litigation Reform Act of 1995. The ANZ New Zealand Group does not undertake any obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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

- political, general business and economic conditions in New Zealand and other jurisdictions in which the ANZ New Zealand Group, its customers or counterparties operate, including, without limitation, changes that impact consumers (including demographic changes, consumer spending, saving or borrowing habits) and changes that may result from the proposed exit of the United Kingdom from the European Union and the trade policies of the United States;
- the stability of New Zealand and other regional and global financial systems, disruptions to financial markets and any losses the ANZ New Zealand Group, its customers or counterparties may experience as a result;
- the effects of competition in the geographic and business environments in which the ANZ New Zealand Group, its customers or its counterparties operate, including 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 perceived overall value of these products and services by customers, as well as the ANZ New Zealand Group's ability to adjust to and compete in the various markets in which the ANZ New Zealand Group operates or seeks to operate;
- commercial and residential mortgage lending and real estate market conditions in New Zealand;
- market liquidity and investor confidence;
- inflation, interest rates, exchange rates, markets and monetary fluctuations, liquidity and funding risks and longer term changes;
- the ANZ New Zealand Group's ability to complete, integrate or separate and process acquisitions and dispositions;
- sovereign risk events that may have an adverse effect on global financial markets;
- credit risk, including losses associated with the ANZ New Zealand Group's counterparty exposures;
- challenges in managing the ANZ New Zealand Group's capital base, which could give rise to greater volatility in capital ratios;
- changes to the ANZ New Zealand Group's credit ratings;
- the failure to meet the capital adequacy and liquidity requirements that the ANZ New Zealand Group is subject to;
- changes in the valuation of some of the ANZ New Zealand Group's assets and liabilities;
- any changes to the ANZ New Zealand Group's accounting policies and their application;
- the impact of current, pending and future legislation, regulation (including capital, leverage, liquidity and prudential requirements), regulatory disclosures and taxation laws in New Zealand and worldwide;
- the impact of legal, regulatory, administrative and other current and future action, proceedings or litigation on the ANZ New Zealand Group, the ANZ New Zealand Group's customers or counterparties, including the risk of fines or sanctions, arising out of alleged or actual failure to comply with applicable laws, regulations and administrative or other requirements;

- changes in monetary policies;
- the impact of compliance costs, the risk of heightened penalties and ongoing regulatory scrutiny with respect to the significant obligations imposed by global tax reporting regimes;
- unexpected changes to the ANZ New Zealand Group's license to operate in any jurisdiction;
- operational factors, including internal and external fraud, employment practices and workplace safety, and business disruption (including systems failures);
- adverse impacts on the ANZ New Zealand Group's reputation;
- changes to ANZ New Zealand's relationship with ANZBGL, including changes required by law, regulation or administrative decree, such as those described under "Regulation and Supervision";
- conduct-related risk events or behaviors;
- risks associated with the information systems the ANZ New Zealand Group maintains, including the reliability and security of the ANZ New Zealand Group's technology and the ANZ New Zealand Group's ability to protect its information from security risks and potential cyber-attacks;
- the effectiveness of the ANZ New Zealand Group's risk management framework;
- the impact of future climate-related and geological events, including risks relating to lending to customers that are impacted by climate events and counterparties that are impacted by climate events;
- other risks and uncertainties detailed under "Regulation and Supervision", "Overview—Competition", "Risk Factors" and elsewhere herein; and
- various other factors beyond the ANZ New Zealand Group's control.

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

Enforcement of Liabilities; Service of Process

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

Presentation of Financial Information

The ANZ New Zealand Financial Statements and the ANZNIL Financial Statements have been prepared in accordance with accounting practice generally accepted in New Zealand ("NZ GAAP") and do not contain a reconciliation to generally accepted accounting principles in the United States ("U.S. GAAP"). The ANZ New Zealand Financial Statements and the ANZNIL Financial Statements comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), International Financial Reporting Standards ("IFRS") and Interpretations adopted by the International Accounting Standards Board ("IASB").

The independent auditors of the ANZ New Zealand Financial Statements and the ANZNIL Financial Statements for 2019, 2018 and 2017 are subject to auditing and auditor independence standards applicable in New Zealand, which differ from those applicable in the United States.

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

For the convenience of the reader, this Offering Memorandum contains translations of certain NZ dollar amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the NZ dollar amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise stated, amounts reported in U.S. dollars have been translated at the Noon Buying Rate for September 30, 2019, which was US$0.6262 = NZ$1.00.

Overview

This section provides an overview of ANZ New Zealand Group's businesses. It does not contain all of the information that potential investors should consider before investing in the Notes. Potential investors should carefully read the entire Offering Memorandum, including the section describing the risks of investing in the Notes under the caption "Risk Factors", before making an investment decision. Some of the statements in this overview constitute forward-looking statements. For more information, please see "Forward-Looking Statements".

ANZ New Zealand

ANZ New Zealand was incorporated under the New Zealand Companies Act 1955 on October 23, 1979, was re-registered under the New Zealand Companies Act 1993 on June 13, 1997, and is a private company limited by shares. ANZ New Zealand's principal executive offices and registered office are located at Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand. ANZ New Zealand's company number is 35976 and the telephone number is +64 (9) 252 2974. Its website is https://www.anz.co.nz/about-us/our-company/. No information on that website forms part of or is incorporated by reference in this Offering Memorandum.

ANZ New Zealand is an indirect wholly-owned subsidiary of ANZBGL. ANZ New Zealand is a registered bank under the Reserve Bank Act.

ANZ New Zealand dates back to 1840, when the Union Bank of Australia opened a branch in Wellington, New Zealand. ANZ New Zealand's ultimate parent company, ANZBGL, was formed through a series of mergers involving the Union Bank of Australia and its successors.

On December 1, 2003, ANZ Banking Group (New Zealand) Limited acquired NBNZ Holdings Limited and its consolidated subsidiaries including The National Bank of New Zealand Limited.

On June 26, 2004, ANZ Banking Group (New Zealand) Limited amalgamated with The National Bank of New Zealand Limited and changed its name to ANZ National Bank Limited.

On October 29, 2012, ANZ National Bank Limited changed its name to ANZ Bank New Zealand Limited and combined its two banking brands (ANZ and The National Bank) under the ANZ brand.

As at September 30, 2019, ANZ New Zealand Group had total assets of $169,416 million and is the largest full-service banking group measured by total assets compared to other registered banks in New Zealand, based on data series *"S10 Banks: Balance Sheet for registered banks"* published by the RBNZ.

As at September 30, 2019, ANZ New Zealand held approximately 29% and the New Zealand branch of ANZBGL held less than 1% of the total assets held by registered banks in New Zealand, based on data series *"S10 Banks: Balance Sheet for registered banks"* published by the RBNZ. As at September 30, 2019, ANZ New Zealand was supported by 164 branches with a customer base of over 2 million.

Competitive strengths

ANZ New Zealand considers that its competitive strengths are that it:

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

ANZ New Zealand's Strategy

ANZ New Zealand aspires to be New Zealand's best bank by helping New Zealanders become more successful and improving the financial wellbeing of its customers. To that end ANZ New Zealand has four strategic priorities:

- Deliver a better experience for customers by creating a simpler, better balanced bank.
- Become a leading digital bank for its customers and people through process automation and making use of its data.

- Attract, develop and retain world class service and sales teams.
- Improve its connections between frontline channels to support customer interactions.

Recent Developments

RBNZ review of capital requirements

The RBNZ has undertaken a comprehensive review of the capital adequacy framework for registered banks in New Zealand. As part of the review, the RBNZ sought public feedback on proposed changes to the definition of eligible capital instruments, the calculation of risk weighted assets ("RWA") and the minimum level of regulatory capital required to be held by New Zealand incorporated registered banks. The RBNZ released its final decisions on key components of the capital review on December 5, 2019. The RBNZ's reforms will result in a material increase in the level of capital that the ANZ New Zealand Group is required to hold, although the amount of the increase is currently uncertain. ANZ New Zealand's total capital as at September 30, 2019 was NZ$13,226 million. The reforms could have a material impact on the ANZ New Zealand Group and its business, including on its capital allocation and business planning. Additionally, the changes may require ANZ New Zealand's ultimate parent company, ANZBGL, to review and reconsider its size, nature and operations in New Zealand, including the total capital invested and business structure.

The key changes to the RBNZ's final capital requirements relative to the consultation paper are set out below:

- An extension of the transition period from five to seven years.
- No change in Tier 1 capital required for the ANZ New Zealand Group of 16%.
- However a greater proportion can be Additional Tier 1 ("AT1") capital (2.5% compared to the initial proposal of 1.5%), decreasing the amount of Common Equity Tier 1 ("CET1") capital required.
- Redeemable preference shares will be allowable as AT1 capital. It is anticipated that the ANZ New Zealand Group will be able to refinance existing internal AT1 securities (issued to other entities within the ANZ Group) to external counterparties.

Any changes are expected to be implemented gradually, considering the market is competitive for lending. The ANZ New Zealand Group has begun preparing for the changes. Of the ANZ New Zealand Group's NZ$1.8 billion net profit after tax for the year ended September 30, 2019, approximately 80% has been retained in response to the proposals.

For further information, see "Regulation and Supervision—New Zealand Regulatory Developments—RBNZ review of capital requirements", "Risk Factors— Risks related to the Issuer's financial situation—Challenges in managing the ANZ New Zealand Group's capital base could give rise to greater volatility in capital ratios, which may adversely affect the ANZ New Zealand Group's Position" and "Risk Factors— Legal and regulatory risk—Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the ANZ New Zealand Group's Position".

Non-compliance with Conditions of Registration

Set out below are outstanding and recent instances of non-compliance by the ANZ New Zealand Group with its Conditions of Registration that were disclosed in the 2019 Disclosure Statement.

Condition of Registration 1B – compliance with BS2B

A number of reviews of the ANZ New Zealand Group's application of, and compliance with, the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) (BS2B) ("BS2B") have been conducted both internally and by external parties. These reviews have identified instances of non-compliance with Condition of Registration 1B listed below.

The aggregate impact of the matters listed below as at September 30, 2019, was an understatement of RWA of NZ$203 million, compared to reported RWA of NZ$97,070 million. This net increase in RWA would decrease the ANZ New Zealand Group's capital ratios by less than 0.03% and would change the reported CET1 capital ratio to 10.7% from 10.8%, but is not sufficient to affect the reported tier 1 and total capital ratios.

As at September 30, 2019, the ANZ New Zealand Group's total regulatory capital of over NZ$13 billion was more than NZ$4 billion (44%) higher than the minimum 10.5% (including buffer) of RWA required.

Instances of non-compliance with Condition of Registration 1B include:

- *Credit risk models*: ANZ New Zealand has not complied with Condition of Registration 1B in relation to the implementation of changes to rating models and processes that were not approved by the RBNZ. Affected models and the initial dates of non-compliance are noted below. Applying the last RBNZ approved methodologies to the affected exposures as at September 30, 2019 would decrease RWA by NZ$47 million (0.05%) in aggregate, which is not sufficient to affect the reported capital ratios.

- o Commercial Property Model Suite (Single Investment, Multi Investment, Hotel Investment, Special Purpose Asset Investment, Single Residential Development, Commercial Development, Englobo Land Pre Development) - 2011
- o Non-Bank Financial Institutions Model Suite (Life Insurance, Non-life Insurance, Insurance Holding Company, Finance Companies, Financial Services Companies, Real Money Funds) - 2009
- o Project and Structured Finance - 2009
- o Bank, Country & Sovereigns – 2008

ANZ New Zealand's model compendium required under section 1.3B of BS2B is not accurate as it includes unapproved model changes. As at the date of this Offering Memorandum, it is uncertain what impact this may have on ANZ New Zealand.

- *Other calculation matters*: Until December 31, 2018, Condition of Registration 1B required compliance with all aspects of BS2B. Effective January 1, 2019, ANZ New Zealand's Conditions of Registration were amended to refer to specific sections of BS2B only. Errors were identified in the calculations of RWA that meant that ANZ New Zealand had not complied with Condition of Registration 1B from the emergence of the errors until December 31, 2018. ANZ New Zealand does not consider that these errors would have materially affected the reported capital ratios. The net increase in RWA as a result of these errors would change the reported CET1 capital ratio to 10.7% from 10.8%, but is not sufficient to affect the reported Tier 1 and total capital ratios.

Understatement / (overstatement) of RWA	BS2B ref	Error since	Sep 30 2019 NZ$m
Credit risk - LGD calculated incorrectly for a small number of farm lending exposures[1]	4.61A	2017	(1)
Credit risk - incorrect EAD factor of 23%, instead of 33%, applied to UDC retail commitments[1]	4.64B	2017	2
Credit risk - exposures incorrectly risk weighted as standardized (100%) rather than advanced (360%)[2]		2017	30
Credit risk - asset value correlation multiplier applied using a threshold of A$100m rather than NZ$120m[3]	4.136A	2013	(10)
Market risk - net interest rate risk for some currency exposures calculated in aggregate rather than individually[2]	7	2008	23
Market risk - modelling of forward interest rate agreements and interest rate futures	7	2008	206
Net understatement / (overstatement) of RWA			250
Reported risk weighted asset			97,070
Aggregate error in risk weighted assets (%)			0.26%

[1] Issue corrected for the calculation of risk-weighted assets at 30 November 2019.

[2] Issue corrected for the calculation of risk-weighted assets at 31 December 2019.

[3] Issue will be resolved following the necessary system change

In addition to the above, in relation to the calculation of market risk capital under part 7 of BS2B:

- o A formula error created in October 2010 had a maximum impact in March 2017 that understated the market risk capital requirement by $37 million but did not affect the reported capital ratios. This was corrected as at September 30, 2019.
- o The system that calculates market risk capital allocates small portions of loan principal to incorrect time periods. These movements could be in both directions, depending on the time of month and timing and frequency of payments, and so may result in either an overstatement or an understatement of the market risk capital requirement. The impact can be modelled on examples of loans but is unable to be quantified with accuracy across the portfolio. The issue, which has existed since 1999, had been documented and assessed as immaterial, however as a zero materiality threshold is applied, constituted a breach of condition of registration 1B.

- *Operational Risk Capital ("**ORC**") model*: In April 2019, ANZ New Zealand informed the RBNZ that in the course of a self-review, ANZ New Zealand discovered that it had not been using an approved model for the calculation of the ORC requirement since December 2014.

  ORC was calculated for ANZ New Zealand by ANZBGL. A failure of systems and controls, as well as no verification being undertaken by ANZ New Zealand, meant that ANZBGL decommissioned the RBNZ approved model without ANZ New Zealand ensuring that it had the necessary regulatory approvals in place to move to a new model. Calculation of the ORC requirement since December 2014 was based on a previous RBNZ approved ORC model output last run in September 2014, with an adjustment to reflect the growth of the ANZ New Zealand Group's business. ANZ New Zealand accepts that this was not in compliance with Condition of Registration 1B.

  The adoption of this calculation and the decommissioning of the authorized ORC model occurred following development of a new ORC model in 2015 to be used by ANZBGL that ANZBGL believed better reflected the risks in the business. This new ORC model was approved by APRA in September 2015 and subsequently submitted to the RBNZ for approval in June 2016. In 2016, the RBNZ suspended approval of capital models and the new ORC model was therefore not approved.

The RBNZ decided that the ANZ New Zealand Group's ORC requirement would be calculated in accordance with the RBNZ's "Capital Adequacy Framework (Standardized Approach) (BS2A)" ("**BS2A**") and ANZ New Zealand's Conditions of Registration were amended to this effect from May 15, 2019. As a result, as at March 31, 2019, the ANZ New Zealand Group's ORC requirement increased by NZ$277 million, and its capital ratios decreased by 40 basis points for CET1 capital and 60 basis points for total capital. Restatement of prior period comparatives was not required by the RBNZ.

Condition of Registration 5 - Exposures to connected persons

From time to time, ANZ New Zealand provides a guarantee or standby letter of credit to a third party in respect of an obligation of a customers of ANZBGL. ANZBGL provides a counter-guarantee or standby letter of credit to ANZ New Zealand, giving ANZ New Zealand recourse directly to ANZBGL if the guarantee or standby letter of credit ANZ New Zealand provides in respect of the customer's obligations is called upon. ANZ New Zealand charges ANZBGL a fee for this service. However, through an internal review, ANZ New Zealand identified that since January 2014 this fee has been lower than the fee charged for this same service provided to unrelated banks and, as a result, ANZ New Zealand has not complied with Condition of Registration 5. As at September 30, 2018, the value of the exposure was NZ$698 million, and was NZ$456 million across 246 individual transactions at September 30, 2019. ANZ New Zealand implemented a revised pricing methodology for all new transactions entered into from January 1, 2020.

Condition of Registration 13 - Liquidity ratios

During a review, the following matters of non-compliance with the RBNZ Liquidity Policy ("BS13") were identified. These errors were not sufficient to affect the reported liquidity ratios.

- Under BS13, 'Market Funding' entities are defined by reference to the 2006 ANZSIC code K62. A sub-code was incorrectly allocated to 'Non-Market'. This error had existed since 2017. This error was corrected as at September 30, 2019, and decreased the one week and one month mismatches and core funding by NZ$2.1 million but did not affect the reported ratios.
- ANZ New Zealand calculated the next cash inflow on variable-rate housing loans based on a current wholesale rate plus the existing margin rather than using the current interest rate to calculate the inflow. This calculation error has existed since 2010. As at September 30, 2019, the difference led to an understatement of the one week and one month liquidity mismatches by NZ$0.07 million and NZ$2.8 million respectively but did not affect the reported ratios.
- The "liquidity ratio" calculation system and the system of record for certain bond liabilities and certain swaps calculate future cash flows differently. The difference has been known since 2017. The difference led to an understatement of the one month mismatch by $0.9 million as at September 30, 2019, but did not affect the reported ratio.

Condition of Registration 24 – Outsourcing

The RBNZ's revised outsourcing policy ("BS11") requires ANZ New Zealand to apply specified risk mitigants against each outsourcing arrangement. During the year ended September 30, 2019, ANZ New Zealand outsourced two arrangements to ANZBGL without the required prescribed contractual terms. ANZ New Zealand intends to remedy these arrangements during the financial year ending September 30, 2020.

BS11 required ANZ New Zealand to have a compendium of information about outsourcing arrangements in place by October 1, 2019. In November 2019, ANZ New Zealand informed the RBNZ that minor data discrepancies had been identified for certain information entered in the compendium during the financial year ended September 30, 2019.

Other matters under review

There are several matters under review, including the calculation of the market risk capital requirement (under BS2B) and liquidity ratios (under BS13 and BS13A), where there may be more than one valid interpretation of the respective policy wording or requirement. Where there may be some uncertainty about the interpretation ANZ New Zealand has applied, where appropriate ANZ New Zealand will seek further guidance from the RBNZ and other parties on these matters. In ANZ New Zealand's current view, the potential impact of the application of other interpretations is immaterial to reported ratios.

Non-compliance with Conditions of Registration may result in a range of possible consequences, including changes to ANZ New Zealand's Conditions of Registration. The impact of such consequences may adversely impact the ANZ New Zealand Group's Position.

For further information, see "Conditions of Registration" under "B1. General Disclosures" in the 2019 ANZ New Zealand Financial Statements and "Risk Factors—Legal and regulatory risk—Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the ANZ New Zealand Group's Position".

Section 95 Reviews

On July 5, 2019, the RBNZ gave ANZ New Zealand notice under section 95 of the Reserve Bank Act, requiring ANZ New Zealand to engage an external reviewer to provide reports regarding:

- ANZ New Zealand's compliance with the RBNZ's capital adequacy requirements; and
- the effectiveness of ANZ New Zealand's director attestation and assurance framework,

(the "Section 95 Reviews").

The director attestation and assurance framework review has been completed. It included four case studies covering: non-compliance with Condition of Registration 1B due to ANZ New Zealand not using an approved model for the calculation of its ORC; mischaracterization of the former CEO's expenses; transactions relating to the 2017 sale of a residential property to the wife of the former CEO (and earlier acquisition in 2011); and non-compliance with Conditions of Registration 1 and 1B relating to the treatment of commitments jointly held with ANZBGL.

The external reviewer's view was that three of the four case studies do not represent systemic failures in ANZ New Zealand's directors' attestation and assurance framework. The exception was the critical failures that led to the case study about the non-compliance with Condition of Registration 1B due to ANZ New Zealand not using an approved model for the calculation of its ORC. The external reviewer's view was that ANZ New Zealand's attestation practices, while functioning adequately, require improvement to become fully effective. The external reviewer made a number of recommendations to improve the director attestation and assurance framework, which were: (1) addressing the immediate structural weaknesses within the directors' attestation program; (2) establishing a strategic program of improvement that is led by the Board of Directors; (3) enhancing and completing the accountability matrix; (4) establishing a program to address the identified cultural issues; and (5) strengthening assurance and developing an integrated assurance plan.

ANZ New Zealand accepted the findings and is committed to implementing the recommendations and addressing the issues raised. On December 11, 2019, the RBNZ issued a further notice under section 95 of the Reserve Bank Act, requiring ANZ New Zealand to obtain an external review of the improvements made to its directors' attestation and assurance framework.

ANZ New Zealand is continuing to work with the RBNZ and an external reviewer to undertake the review regarding ANZ New Zealand's compliance with the RBNZ's capital adequacy requirements.

The findings from the Section 95 Reviews may result in a range of possible consequences for ANZ New Zealand, including changes to ANZ New Zealand's Conditions of Registration and potential increases in minimum capital requirements. In addition, the FMA and the RBNZ, following their review of ANZ New Zealand's conduct and culture plan, informed ANZ New Zealand that the outcomes of the Section 95 Reviews may result in ANZ New Zealand needing to amend its conduct and culture plan.

Leadership changes at ANZ New Zealand

On December 18, 2019, ANZ New Zealand confirmed the appointment of Ms. Antonia Watson as Chief Executive Officer ("CEO") and director of ANZ New Zealand. Ms. Watson had been Acting CEO of ANZ New Zealand since May 2019, following the departure of Mr. David Hisco. Mr. Hisco's departure followed ongoing health issues as well as the Board of Directors of ANZ New Zealand's concern about the characterization of certain transactions following an internal review of personal expenses. Prior to her appointment as Acting CEO, Ms. Watson was Managing Director, Retail & Business Banking, of ANZ New Zealand.

On January 22, 2020, ANZ New Zealand announced the appointment of Mr. Grant Knuckey as its Chief Risk Officer ("CRO") effective from February 3, 2020. Mr. Knuckey replaces Mr. Bruce Macintyre who retired on December 17, 2019. Mr. Knuckey has worked in various international roles for the ANZ Group for more than 20 years, including as CEO Americas, based in New York, and CEO for Japan and Korea, based in Tokyo.

On October 18, 2019, ANZ New Zealand appointed Ms. Alison Gerry to its Board of Directors. Ms. Gerry is an experienced director with significant commercial, governance and strategic experience in the Trans-Tasman, Asian and British financial services and infrastructure sectors.

Calculation of capital adequacy

Following the conclusion of a benchmarking project undertaken by the RBNZ, effective June 30, 2019, ANZ New Zealand's Conditions of Registration were amended to include a supervisory adjustment to the ANZ New Zealand Group's capital adequacy calculations. This supervisory adjustment introduced minimum pre-scalar risk weightings for residential mortgage exposures and corporate farm lending exposures and, based on June 30, 2019 exposures, resulted in an increase in risk weighted assets of $10.5 billion. The benchmarking project assessed the conservatism of housing and rural credit risk models used by banks accredited to model their own credit risk capital requirements.

Loan calculator remediation

In June 2017, ANZ New Zealand self-reported a problem with a loan calculator to the New Zealand Commerce Commission (the "**Commerce Commission**"). The problem affected some of 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. As at the date of this Offering Memorandum, ANZ New Zealand has credited approximately $8.4 million to affected customers to put the affected loans back into the position they would have been in had the error not occurred.

*Financial Markets Authority **("FMA")** review of related party transactions*

In November 2010, a subsidiary of ANZ New Zealand, Arawata Assets Limited, purchased a residential property for NZ$7.55 million. The property was leased to the then CEO of ANZ New Zealand, Mr. David Hisco, as part of a relocation package arrangement.

On March 31, 2017, the property was sold to Mr. Hisco's wife for NZ$6.9 million. At the time, Mr. Hisco was the CEO of ANZ New Zealand. The transaction was not separately disclosed in the disclosure statement of the ANZ New Zealand Group for the financial year ended September 30, 2017 (the "**2017 Disclosure Statement**").

Following consultation with the FMA and the RBNZ, ANZ New Zealand provided relevant information regarding its reporting of related party transactions in its financial statements to the FMA. ANZ New Zealand also provided that information to the external reviewer who considered the transaction as part of the Section 95 Reviews. See "—Section 95 Reviews" for further information.

ANZ New Zealand obtained two independent valuations of the property, one of which was not considered for a number of reasons, including that it did not comply with valuation standards. ANZ New Zealand then obtained a further independent valuation and the sale price was determined as the midpoint of the two independent valuations, less an amount reflecting part of the estimated sale costs that would have otherwise been incurred.

In August 2019, the FMA announced that it had determined that the ANZ New Zealand Group should have disclosed the sale as a related party transaction in its 2017 Disclosure Statement. In the FMA's view, the disclosure was material for financial reporting purposes given the nature of the transaction. The FMA also informed the RBNZ and the Australian Securities and Investments Commission ("**ASIC**") of its determination.

The ANZ New Zealand Group acknowledges the decision of the FMA that it should have disclosed the March 2017 sale as a related party transaction in its 2017 Disclosure Statement.

*Effect of **APRA's** Related Entities Framework and APS111 Capital Adequacy Measurement of Capital*

In August 2019, APRA released an update to APRA Prudential Standard APS 222 "Associations with Related Entities" ("**APS222**"), which is to be effective from January 1, 2021. Changes that affect the quantum and nature of the financial support that ANZBGL can provide to the ANZ New Zealand Group are:

- change the Level 1 capital base used for setting the exposure limits from total capital to Tier 1 capital; and

- reduce the Australian ADIs' individual entity exposure to related ADIs (or overseas equivalents such as ANZ New Zealand) from 50% of Level 1 total capital to 25% of its Level 1 Tier 1 capital base, and the aggregate exposures from 150% of Level 1 total capital to 75% of its Level 1 Tier 1 capital base.

APRA may provide for entity-specific transitional arrangements or flexibility on a case-by-case basis.

Further, in October 2019, APRA released a discussion paper on draft revisions to APRA Prudential Standard APS 111 "Capital Adequacy: Measurement of Capital" ("**APS111**"), which proposes to change the Level 1 capital treatment for Australian ADIs, such as ANZBGL, investing in ADIs (or overseas equivalents such as ANZ New Zealand) and insurance subsidiaries. The proposed changes, set for implementation from January 1, 2021, would result in:

- the initial investment, up to an amount equal to 10% of ANZBGL's net Level 1 CET1 capital base, being risk-weighted at 250%; and

- the remainder of the investment being treated as a CET1 capital deduction.

If implemented, these APS111 changes would reduce ANZBGL's Level 1 Tier 1 capital base and exposure to the ANZ New Zealand Group for the purposes of APS222 reporting. As a result, ANZBGL's expected exposure to the ANZ New Zealand Group at January 1, 2021 would be compliant with the revised APS222 limits.

However, if the APS111 changes are not implemented and the APS222 changes become effective, it is still possible that the changes outlined in APRA's announcement in connection with APS222 could adversely impact the ANZ New Zealand Group's Position, its credit ratings and its ability to grow its business as ANZBGL's exposure to ANZ New Zealand would be near the limit of 25% of Level 1 Tier 1 capital, although ANZBGL would be able to apply for transition relief.

S&P raises credit rating on ANZ New Zealand Capital Notes

On October 24, 2019, S&P announced that it had increased the stand-alone credit profiles of the major Australian banks, including ANZBGL, by one notch to 'a' from 'a-'. As a result, ANZ New Zealand's NZ$500 million Additional Tier 1 Capital Notes have been upgraded from BB+ to BBB- as this rating is based on ANZBGL's stand-alone credit profile. There was no change to ANZ New Zealand's senior issuer credit rating of AA- (Stable).

ANZ New Zealand organizational structure

Business lines and executive team

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

Retail

Retail provides a full range of banking products and wealth management services to consumer, private banking and small business banking customers. The ANZ New Zealand Group delivers its services via its internet and app-based digital solutions and network of branches, specialist channels (which include mortgages and funds management adviser distribution), relationship managers and contact centres.

As at September 30, 2019, Retail had a network of 164 branches (a decrease of 15, compared to September 30, 2018, due to the restructuring of the branch network) and 576 ATMs, which included 8 mobile ATMs. Customers have access to phone and mobile phone banking and on-line banking services.

As at September 30, 2019, Retail had total loans of $81.8 billion and total deposits of $73.9 billion.

As at September 30, 2019, funds managed by the ANZ New Zealand Group totaled $34.1 billion.

In November, 2018, ANZ Wealth New Zealand Limited sold OnePath Life (NZ) Limited ("OnePath Life NZ"), a licensed life insurer and a wholly-owned subsidiary of ANZ New Zealand, to a related party nominee of Cigna Corporation ("Cigna"). The sale includes a 20-year strategic alliance for Cigna to provide life insurance solutions for ANZ New Zealand customers. Under the agreement, ANZ New Zealand will continue to distribute life insurance products to its customers, but these insurance products will be manufactured by Cigna's New Zealand licensed insurers.

Commercial

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

As at September 30, 2019, Commercial had total loans of $43.5 billion and total deposits of $16.1 billion of which UDC accounted for $3.4 billion and $0.1 billion, respectively.

On October 31, 2019, ANZ New Zealand announced that it is again exploring a range of strategic options, including divestment, for UDC.

Institutional

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

- Transaction Banking provides working capital and liquidity solutions including documentary trade, supply chain financing as well as cash management solutions, deposits, payments and clearing.

- Loans & Specialized Finance provides loan products, loan syndication, specialized loan structuring and execution, project and export finance, debt structuring and acquisition finance, structured trade and asset finance, and corporate advisory.

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

As at September 30, 2019, Institutional had total loans of $7.3 billion and total deposits of $19.2 billion.

In December 2018, ANZ New Zealand sold the ANZ Securities service, including a platform that allows customers to trade equities and bonds, to First NZ Capital Securities Limited ("FNZC"). In June 2019, FNZC was renamed Jarden Securities Limited ("Jarden"). The sale included a strategic alliance between ANZ New Zealand and

Jarden, whereby Jarden will provide equity and bond trading services to Jarden and ANZ New Zealand's customers.

Other

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

Executive Team

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

- Chief Executive Officer;
- Acting Managing Director, Retail & Business Banking;
- Managing Director, Wealth & Private Banking;
- 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 & Data; and
- Head of Digital & Transformation.

Branding Strategy

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

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

- UDC (asset finance);
- ANZ Investments (superannuation and investment products); and
- Bonus Bonds.

Competition

The New Zealand financial services sector in which the ANZ New Zealand Group operates is very concentrated and highly competitive. The ANZ New Zealand Group's principal competitors are the three other major banks: ASB Bank Limited, Bank of New Zealand and Westpac Banking Corporation/Westpac New Zealand Limited. Each of these is a subsidiary or branch of a major Australian bank. These banks participate across all customer segments from individuals to large corporates.

Competition also exists in specific business segments from other banks. Kiwibank Limited is active in the retail and business segment and Rabobank New Zealand Limited is active in retail deposits and agricultural lending markets. International banks such as Citigroup and HSBC participate in a limited manner in the institutional market. Since late 2013, Industrial and Commercial Bank of China Limited, China Construction Bank Corporation and Bank of China Limited have each become registered banks in New Zealand. Their focus appears to be in housing and business lending, however, their market share remains small in these segments.

Competition in the financial services sector can be intense and difficult to predict. The retail deposit market in New Zealand continues to be competitive, with banks attempting to maintain their market share in the current low interest rate environment. Margins on retail deposits have increased as wholesale rates have shifted lower. Institutional deposit balances have increased, likely as retail deposits switch to managed funds in search of a higher yield. As at September 30, 2019, lending to the residential mortgage market accounted for over half of the lending in New Zealand by registered banks and this market is a key area of competitive tension.

While non-bank originators have become more active in New Zealand in recent years, the growth rate in total assets has been lower compared to off-shore markets such as Australia, which the ANZ New Zealand Group believes may be a result of factors that include the more positive community perception that New Zealand banks have compared to banks in other off-shore markets and limited legislation in New Zealand mandating the disclosure of customer data. The non-banking sector constituted approximately 3% of total financial system assets as of September 30, 2019.

See "Risk Factors— Risks related to the Issuer's business activities and industry—Competition in the markets in which the ANZ New Zealand Group operates may adversely affect the ANZ New Zealand Group's Position" for further information.

Significant Subsidiaries

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

As at September 30, 2019, ANZNIL did not account for 10% or more of any of ANZ New Zealand Group's consolidated investments, operating surplus or assets for the most recent financial year, but it is considered by management to be of importance to ANZ New Zealand. In addition, as at September 30, 2019, ANZNIL accounts for more than 10% of ANZ New Zealand Group's consolidated total liabilities.

Employees

As at September 30, 2019, ANZ New Zealand employed 7,114 core full-time equivalent employees, consisting of 6,280 people employed on a full-time basis, 723 full-time equivalent employees employed on a part-time basis, and 111 people on fixed-term contracts. In addition, ANZ New Zealand had a further 24 full-time equivalent employees employed on a casual basis and 229 independent contractors and temporary staff.

			As of September 30,
	2019	2018	2017
Number of core full-time equivalent employees[1]	7,114	7,374	7,565

(1) All employees are located in New Zealand except for one employee located in ANZNIL's London branch. Core full-time equivalent employees include employees that are employed on a full-time basis, part-time basis or that are on a fixed term contract, but does not include casual employees or independent contractors.

ANZ New Zealand's core full-time equivalent employees have decreased from 7,374 as at September 30, 2018, to 7,114 as at September 30, 2019.

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

Properties

The ANZ New Zealand Group operates from a substantial number of properties, both freehold and leasehold, throughout New Zealand. As of the date of this Offering Memorandum, the ANZ New Zealand Group's freehold portfolio consisted of 25 properties including head office buildings, retail branches and two data-centers. The ANZ New Zealand Group's most valuable freehold properties are Lady Ruby Drive Data Centre (Auckland), Aintree Ave Data Centre (Auckland) and 170 Featherston Street (Wellington).

As of the date of this Offering Memorandum, the ANZ New Zealand Group leases approximately 537 properties including branches, offices, carparks and standalone ATM sites. The ANZ New Zealand Group believes that all of its properties, both freehold and leasehold, are well maintained and adequately insured.

ANZ New Zealand **(Int'l)** Limited

ANZNIL was incorporated under the New Zealand Companies Act 1955 on December 8, 1986, was re-registered under the New Zealand Companies Act 1993 on May 27, 1996, and is a private company limited by shares. The registered office of ANZNIL is located at Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand and its New Zealand company number is 328154. ANZNIL's London branch is located at 28th Floor, 40 Bank Street, Canary Wharf, London E14 5EJ, United Kingdom and the phone number is +44 (20) 3229 2017. Its website is https://www.anz.co.nz/about-us/media-centre/investor-information/anz-nz-limited/. No information on that website forms part of or is incorporated by reference in this Offering Memorandum.

ANZNIL is a wholly-owned subsidiary of ANZ New Zealand (see "Overview—ANZ New Zealand" above for details on ANZ New Zealand).

The principal activities of ANZNIL include the provision of funding facilities to the ANZ New Zealand Group and wholesale financing, including issuance of U.S. Commercial Paper, Euro Commercial Paper, Covered Bonds, U.S. Medium-Term Notes and Euro Medium-Term Notes.

ANZNIL's overseas activities (including the issuance of Notes) are conducted through its London branch. ANZNIL has no subsidiary companies. ANZNIL is largely dependent on its parent, ANZ New Zealand, as ANZ New Zealand fully guarantees all obligations under ANZNIL's funding programs.

Overview of Terms

The Issuers...	ANZ New Zealand and ANZNIL.
ANZ New Zealand Legal Entity Identifier **("LEI")**...	HZSN7FQBPO5IEWYIGC72
ANZNIL LEI	213800VD256NU2D97H12
The Guarantor...	ANZ New Zealand in the case of ANZNIL Notes.
The Agents..	J.P. Morgan Securities LLC ANZ Securities, Inc. Barclays Capital Inc. BofA Securities, Inc. Citigroup Global Markets Inc. Deutsche Bank Securities Inc. Goldman Sachs & Co. LLC HSBC Securities (USA) Inc. Morgan Stanley & Co. LLC RBC Capital Markets, LLC Wells Fargo Securities, LLC Any other agents appointed in accordance with the terms of the Distribution Agreement.
Terms of the Notes and Guarantee	The Notes, which may be issued at their principal amount or at a premium to or discount from their principal amount, on an unsubordinated basis, may bear interest at a fixed or floating rate or be issued on a fully discounted basis and not bear interest. The interest rate or interest rate formula, if any, issue price, currency, terms of redemption or repayment, if any, and stated maturity will be established for each Note by the Issuer thereof at the issuance of such Note and will be indicated in the applicable Final Terms. The ANZNIL Notes issued by ANZNIL will be unconditionally and irrevocably guaranteed by ANZ New Zealand as described under "Description of the Notes and the Guarantee".
Method of Distribution	The Notes are being offered from time to time by the Issuer through the Agents. The Issuers may also sell Notes to the Agents acting as principals for resale in the United States to QIBs and outside the United States to individuals that are not U.S. persons (as defined in Regulation S) and may sell Notes directly on their own behalf. See "Notice to Purchasers" and "Plan of Distribution".
Maximum Amount....................................	The aggregate principal amount (or, in the case of Notes issued at a discount from the principal amount, the aggregate initial offering price) of Notes outstanding at any time shall not exceed US$10,000,000,000 or the approximate equivalent thereof in another currency calculated as at the issue date of the relevant Notes. The Issuers may increase this amount from time to time in accordance with the terms of the Distribution Agreement.
Status of the Notes	The Notes will be direct, unsecured and general obligations of the relevant Issuer and will rank equally with all other present and future unsecured and unsubordinated obligations of the relevant Issuer (other than any obligation preferred by mandatory provisions of applicable law).
Status of the Guarantee...........................	The Guarantee of ANZ New Zealand with respect to the ANZNIL Notes issued by ANZNIL will be a direct, unsecured and general obligation of ANZ New Zealand and will rank equally with all other present and future unsecured and unsubordinated obligations of ANZ New Zealand (other than any obligation preferred by mandatory provisions of applicable law).

Maturities	Such maturities as may be agreed between the relevant Issuer and the relevant purchaser or Agent (as indicated in the applicable Final Terms as the Stated Maturity), subject to such minimum or maximum term as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant Specified Currency (as defined herein). At the date of this Offering Memorandum, the minimum term of all Notes is one year. There is no maximum stated term.
Currency	Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed between the relevant Issuer and the relevant purchaser or Agent (as indicated in the applicable Final Terms). See "Description of the Notes and the Guarantee—Currency of Notes".
Denomination and Form...........................	The Notes will be issued in fully registered form in minimum denominations of US$200,000 (or, in the case of Notes not denominated in U.S. dollars, the equivalent thereof in such Specified Currency, rounded down to the nearest 1,000 units of such foreign currency) and integral multiples of US$1,000 (or, in the case of Notes not denominated in U.S. dollars, 1,000 units of such Specified Currency) in excess thereof.
	In the case of any Notes which are to be offered to the public in a Member State of the EEA or in the UK in circumstances which would otherwise require the publication of a prospectus under the Prospectus Regulation, the minimum denomination at the issue date shall be no less than €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).
	Notes sold to QIBs in reliance on Rule 144A will be represented by one or more global Notes (each, a "Rule 144A Global Note") registered in the name of a nominee of DTC. Notes sold to non-U.S. persons in offshore transactions in reliance on Regulation S will be represented by one or more global Notes (each, a "Regulation S Global Note" and, together with the Rule 144A Global Notes, the "Global Notes") registered in the name of a nominee of DTC. Definitive Notes will only be issued in limited circumstances. See "Legal Ownership and Book-Entry Issuance—Special considerations for Global Notes".
Interest Rates..	Interest bearing Notes may be issued either as Fixed Rate Notes or Floating Rate Notes (each, as defined herein). Fixed Rate Notes will bear interest at the rate specified in the applicable Final Terms. Floating Rate Notes will bear interest based on an interest rate formula designated in the applicable Final Terms, which formula shall be one of: the Federal Funds Rate, LIBOR and SOFR. The interest rate on each Floating Rate Note will be calculated by reference to the specified interest rate (a) plus or minus the Spread (as defined herein), if any, and/or (b) multiplied by the Spread Multiplier (as defined herein), if any. Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both or neither.
Interest Payment Dates...........................	Interest on Fixed Rate Notes will be payable annually or semi-annually on the date or dates set forth in the applicable Final Terms, and at maturity, and interest on Floating Rate Notes will be payable quarterly on the dates set forth in the applicable Final Terms and at maturity.

Redemption and Repurchase	The applicable Final Terms will indicate either that such Notes cannot be redeemed prior to their stated maturity (other than for certain taxation reasons) or that such Notes will be redeemable at the option of the relevant Issuer upon giving not more than 60 days written notice nor less than 30 days written notice to the holders of such Notes on a date or dates specified prior to such stated maturity and at a price or prices as are indicated in the applicable Final Terms. The applicable Final Terms will indicate either that such Notes cannot be repurchased prior to their stated maturity or that the Notes will be able to be repurchased at the option of the holders of such Notes on a date or dates specified prior to the stated maturity upon giving no more than 45 days nor less than 30 days written prior notice to the Fiscal Agent.
Redemption for Taxation Reasons	The Notes may be redeemed at the option of the relevant Issuer, in whole but not in part, at the principal amount thereof plus accrued and unpaid interest in certain circumstances in which the relevant Issuer or, in the case of ANZNIL Notes, the Guarantor, would become obligated to pay additional amounts. See "Description of the Notes and the Guarantee—Payment of additional amounts" and "—Redemption for taxation reasons".
Zero Coupon Notes	Zero Coupon Notes will be offered and sold at a discount to their principal amounts and will not bear interest.
Original Issue Discount Notes..................	An Original Issue Discount Note will be issued at a price lower than its principal amount and will provide that, upon redemption or acceleration of its maturity, an amount less than its principal amount will be payable (as specified in the applicable Final Terms).
Taxation...	All payments in respect of the Notes and the Guarantee will be made without deduction for or on account of withholding taxes imposed within New Zealand or the United Kingdom, except as described under "Description of the Notes and the Guarantee —Payment of additional amounts". For a discussion of certain tax considerations, see "Taxes".
Rating	The Notes when issued, are expected to be rated A1 by Moody's, AA- by S&P and AA- by Fitch.
	A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.
Fiscal Agent	The Bank of New York Mellon.
Paying Agent	The Bank of New York Mellon.
Listing..	The Notes will be admitted to the Official List of the FCA and admitted to trading on the London Stock Exchange's Regulated Market.
Transfer Restrictions	There are selling restrictions in relation to the United States, Canada, Hong Kong, Japan, New Zealand, the European Economic Area, the Republic of Korea, Singapore, Taiwan, the United Kingdom, and such other jurisdictions as may be required in connection with the offering and sale of a Tranche as set forth in the applicable Final Terms. See "Plan of Distribution".

Governing Law	State of New York, except as to authorization and execution by ANZ New Zealand and ANZNIL of the Notes, the Guarantee and the Fiscal Agency Agreement, which are governed by the laws of New Zealand.
Risk Factors	Prospective purchasers of the Notes should consider carefully all of the information set forth in this Offering Memorandum and, in particular, the information set forth under the caption "Risk Factors" in this Offering Memorandum before making an investment in the Notes.

Selected Consolidated Financial Information

The consolidated income statement data of the ANZ New Zealand Group for the financial years ended September 30, 2019, 2018, 2017, 2016 and 2015 and the consolidated balance sheet information of the ANZ New Zealand Group as at September 30, 2019, 2018, 2017, 2016 and 2015 have been derived from the ANZ New Zealand Group's audited consolidated financial statements for the financial years ended September 30, 2019, 2018, 2017, 2016 and 2015 (except as specified in the footnotes to the following tables). The financial information contained in this Offering Memorandum should be read in conjunction with, and is qualified by reference to, the ANZ New Zealand Financial Statements. For additional information concerning the ANZ New Zealand Group's financial results, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Offering Memorandum.

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

Summary consolidated income statement data

				Financial year ended September 30,		
NZ$ millions (unless otherwise stated)	2019 US$ millions[1]	2019	2018	2017	2016	2015
Interest income	4,022	6,423	6,390	6,198	6,423	6,926
Interest expense	1,991	3,179	3,240	3,161	3,421	4,051
Net interest income	2,031	3,244	3,150	3,037	3,002	2,875
Other operating income	592	946	1,126	938	852	1,175
Net operating income	2,624	4,190	4,276	3,975	3,854	4,050
Operating expenses	1,007	1,608	1,517	1,468	1,599	1,512
Profit before credit impairment and income tax	1,617	2,582	2,759	2,507	2,255	2,538
Credit impairment charge	63	101	55	62	150	74
Profit before income tax	1,554	2,481	2,704	2,445	2,105	2,464
Income tax expense	415	662	751	680	570	681
Profit after income tax	1,139	1,819	1,953	1,765	1,535	1,783

(1) For the convenience of the reader, the financial data for the financial year ended September 30, 2019 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 30, 2019 of NZ$1.00=US$0.6262.

Summary consolidated balance sheet data

NZ$ millions (unless otherwise stated)	As at September 30, 2019 US$ millions[1]	2019	2018	2017	2016	2015
Assets						
Cash and cash equivalents	1,480	2,363	2,200	2,338	2,274	2,380
Settlement balances receivable	121	193	656	536	396	309
Collateral paid	1,455	2,324	1,919	1,415	2,310	1,929
Trading securities	5,599	8,942	8,024	7,663	11,979	12,139
Derivative financial instruments	7,305	11,666	8,086	9,878	21,110	17,658
Investment securities	4,400	7,027	6,502	6,360	2,859	1,428
Net loans and advances	82,987	132,525	126,466	117,627	114,623	106,357
Assets held for sale[2]	-	-	897	3,065	-	-
Life insurance contract assets	-	-	-	636	630	552
Investment in associates	-	-	6	7	7	4
Deferred tax assets	48	77	-	-	-	-
Goodwill and other intangible assets	2,051	3,276	3,289	3,275	3,424	3,492
Investments backing insurance contract liabilities	-	-	-	123	119	151
Premises and equipment	210	335	325	367	387	388
Other assets	432	688	642	683	701	740
Total assets	106,088	169,416	159,012	153,973	160,819	147,527
Liabilities						
Settlement balances payable	1,006	1,607	2,161	1,840	1,771	1,844
Collateral received	621	991	845	613	529	1,687
Deposits and other borrowings	71,028	113,427	108,008	101,657	99,066	90,678
Derivative financial instruments	6,915	11,042	8,095	9,826	21,956	17,230
Current tax liabilities	63	101	161	39	21	87
Deferred tax liabilities	-	-	21	187	145	124
Liabilities held for sale[2]	-	-	334	1,088	-	-
Payables and other liabilities	725	1,159	947	1,151	1,119	1,487
Employee entitlements and other provisions	283	452	196	185	206	191
Debt issuances	16,411	26,207	25,135	24,606	23,296	21,746
Total liabilities	97,052	154,986	145,903	141,192	148,109	135,074
Net assets	9,036	14,430	13,109	12,781	12,710	12,453
Equity						
Share capital	7,444	11,888	11,888	8,888	8,888	8,888
Reserves	13	21	33	48	62	(10)
Retained earnings	1,579	2,521	1,188	3,845	3,760	3,575
Total equity	9,036	14,430	13,109	12,781	12,710	12,453

(1) For the convenience of the reader, the financial data as at September 30, 2019 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 30, 2019 of NZ$1.00=US$0.6262.

(2) Assets and liabilities classified as held for sale comprise the assets and liabilities of OnePath Life NZ as at September 30, 2018, and UDC as at September 30, 2017. These are presented separately on ANZ New Zealand's balance sheet. The sale of UDC did not proceed, and assets and liabilities classified as held for sale relating to UDC were subsequently reclassified to their original financial statement line items. On November 30, 2018, ANZ New Zealand sold OnePath Life NZ to a related party of Cigna.

Other financial data[1]

	2019 US$[12]	2019	2018	2017	2016	2015
				Financial year ended September 30,		
Share information (NZ$ per fully paid share)[2]						
Dividend - declared rate	0.04	0.06	1.12	0.50	0.40	0.65
Earnings - basic	0.18	0.29	0.41	0.53	0.46	0.62
Net tangible assets - basic	1.10	1.76	1.53	2.80	2.78	2.68
Number of shares on issue (thousands)[2]						
Ordinary shares - fully paid	6,345,105	6,345,105	6,345,105	3,345,105	3,345,105	3,345,105
Preference shares[3]	300,000	300,000	300,000	300,000	300,000	300,000
Ratios[4]						
Return on average shareholders equity (%)[5]	13.23	13.23	14.81	13.58	12.10	14.85
Return on average total assets (%)[6]	1.10	1.10	1.23	1.12	0.98	1.29
Total capital ratio (%)	13.6	13.6	14.4	14.4	13.7	13.6
Other banking data:						
Capital adequacy ratios [7]						
Tier 1 (%)	13.6	13.6	14.4	14.1	13.2	12.7
Tier 2 (%)	-	-	-	0.3	0.5	0.9
Total (%)	13.6	13.6	14.4	14.4	13.7	13.6
Net interest margin (%)[8]	2.16	2.16	2.20	2.21	2.28	2.40
Cost to income ratio (%)[9]	38.38	38.38	35.48	36.93	41.49	37.33
Risk-weighted exposures (NZ$ millions)[7]	60,785	97,070	82,147	81,642	87,119	80,662
Return on average risk-weighted exposures ratio (%)[10]	2.06	2.06	2.39	2.07	1.83	2.31
Other information						
Points of representation (branches)	164	164	179	193	214	225
Number of core full-time equivalent employees[11]	7,114	7,114	7,374	7,565	7,655	7,838

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

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

(3) On September 25, 2013, ANZ New Zealand issued preference shares to ANZ Holdings (New Zealand) Limited. These preference shares do not carry any voting rights. They are wholly classified as equity instruments, as there is no contractual obligation for ANZ New Zealand to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavorable basis.

(4) Where applicable, ratios calculated using average balances have been referenced to the table under "Management's Discussion and Analysis of Financial Condition and Results of Operation—Average balance sheet and interest income/expense". Unless otherwise stated, the methodology for calculating average balances is included in that table.

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

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

(7) The RBNZ sets minimum capital requirements that ANZ New Zealand must comply with. From January 1, 2013, ANZ New Zealand has been required to comply with the RBNZ's Basel III (as defined below) requirements. The capital adequacy ratios and risk weighted exposures in the above table have been calculated under the Basel III framework, utilizing the IRB approach, except for ORC, which is calculated in accordance with BS2A from March 31, 2019. See "Overview—Recent Developments—Non-compliance with Conditions of Registration".

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

(9) Operating expenses divided by operating income.

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

(11) All employees are located in New Zealand except for one employee located in ANZNIL's London branch. Core full-time equivalent employees include employees that are employed on a full-time basis, part-time basis or that are on a fixed term contract but does not include casual employees or independent contractors.

(12) For the convenience of the reader, the financial data for the financial year ended September 30, 2019 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 30, 2019 of NZ$1.00=US$0.6262.

Risk Factors

Any investment in the Notes will involve risks including, without limitation, those described in this section. All material risks that have been identified by the Issuers and the Guarantor are included in this section. Prospective investors should carefully consider the following discussion of the risk factors and the other information in this Offering Memorandum and any applicable Final Terms or other supplement and consult their own financial and legal advisers about the risks associated with the Notes before deciding whether an investment in the Notes is suitable for them.

Potential investors should be aware that the risks set forth below are not exhaustive as these will not include risks of which the Issuers and the Guarantor are unaware, or that they currently deem immaterial, but which may become material in the future.

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

Risks relating to the Issuers and the Guarantor, including the ability of the Issuers to fulfil their obligations under the Notes and the ability of the Guarantor to fulfil its obligations under the Guarantee

The ANZ New Zealand Group's activities are subject to risks that can adversely impact its business, operations, results of operations, reputation, prospects, liquidity, capital resources, financial performance and financial condition (together, "Position"). The risks and uncertainties described below are not the only ones that the ANZ New Zealand Group may face. Additional risks and uncertainties that the ANZ New Zealand Group is unaware of, or that it currently deems to be immaterial, may also become important factors that affect it. If any of the specified or unspecified risks actually occur, the ANZ New Zealand Group's Position may be materially and adversely affected.

Risks related to the **Issuer's** business activities and industry

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

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

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

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 Position.

Economic and political conditions and events in New Zealand which may adversely affect the ANZ New Zealand Group's Position include, but are not limited to:

- the implementation of new policies by the New Zealand Government, such as proposed policies relating to the examination of agricultural debt mediation, amendments to the Credit Contracts and Consumer Finance Act 2003 ("CCCFA"), the review and reform of the Reserve Bank Act and changes to New Zealand's foreign investment legislation;
- commodities volatility and results, such as reduced demand for New Zealand exports and lower export commodity prices;
- short-term and long-term interest rates, inflation and monetary supply;
- fluctuations in credit and equity capital markets;

- relative changes in foreign exchange rates, including the 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.

The impact of the global financial crisis in 2007 and its aftermath continue to affect regional and global economic activity, confidence and capital markets. Prudential authorities 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. The ANZ New Zealand Group believes that the global financial crisis has also had a lasting effect on consumer and business behavior in advanced economies, including the major countries and regions in which the ANZ New Zealand Group or its customers or counterparties operate. Consumers in recent years have reduced their savings rates in the face of weak income growth, while businesses have been reluctant to invest and inflation has remained low. The potential for escalation in geopolitical risks has also contributed to vulnerability in consumer and business behavior. Monetary authorities responded to the global financial crisis by introducing zero or near-zero interest rates across most countries, and the major central banks took unconventional steps to support growth and raise inflation. Recently, some monetary authorities are taking similar actions due to current market conditions. For example, central banks worldwide, including the U.S. Federal Reserve, the RBA and the RBNZ, cut interest rates in 2019. In addition, during 2019, interest rates in Europe and Japan were close to zero or below zero.

Changes in global political conditions have led to, and may continue to result in, extended periods of increased political and economic uncertainty and volatility in the global financial markets. Recent examples include the protracted "Brexit" (as defined below) negotiations, Donald Trump's presidency and protectionist policies, and global trade developments relating to, among other things, the imposition or threatened imposition of trade tariffs and levies by major countries including by those that are New Zealand's significant trading partners (for instance, changes in U.S. trade relations with China could affect economic activity in New Zealand). Such changes have reduced and could lead to a further reduction in consumer and business activity within the markets in which the ANZ New Zealand Group or its customers or counterparties operate, or result in the introduction of new and/or divergent regulatory frameworks that the ANZ New Zealand Group will need to adhere to.

The exit of the United Kingdom from the European Union (commonly referred to as "Brexit") may adversely affect the business operations of the ANZ New Zealand Group, its customers and counterparties in Europe. The financial, trade and legal implications of Brexit remain uncertain and its impact may be more severe than expected given that the terms of the United Kingdom's future trading relations with the EU are still not known and given the lack of comparable precedent. As a result, the ANZ New Zealand Group is subject to the risk that changes to the structure of its business operations in Europe may be required as a result of the final terms of Brexit.

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

The economic conditions of New Zealand or other regions with economic connections to New Zealand (in particular, New Zealand's major trading partners, such as Australia or China), may also be affected by geopolitical instability, including potential or actual conflict, occurring around the world, such as the ongoing unrest and conflicts in Ukraine, North Korea, Hong Kong, Syria, Egypt, Afghanistan, Iraq, Iran, Nicaragua and elsewhere, as well as the current high threat of terrorist activities. Geopolitical instability may also adversely affect global financial markets, general business and economic conditions. Such instability may also adversely affect the ANZ New Zealand Group's ability to continue operating or trading in an affected country or region, which in turn may adversely affect the ANZ New Zealand Group's Position. Slower growth and uncertainty regarding global growth in the future may depress global commodity prices, particularly dairy and agricultural prices, and add to financial market uncertainty. A further or sustained slowdown in global economic growth or a decline in commodity prices could depress the volume and price of New Zealand's exports, such as dairy products, with negative flow-on effects for those industries closely tied to the export sector.

Movements in the New Zealand dollar illustrate the potential volatility in, and significance of global economic events to, the value of the New Zealand dollar relative to other currencies. 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.

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

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

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

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

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

The markets in which the ANZ New Zealand Group operates are highly competitive and could become even more so. Many factors contribute to competition risk including mergers, acquisitions, divestments, joint ventures and alliances, changes in customers' needs, preferences and behaviors, 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. Other examples are:

- entities that the ANZ New Zealand Group competes with, including those outside of New Zealand, could be subject to different levels of regulation and regulatory activity. This could allow them to offer more competitive products and services and those different levels of regulation could give them a lower cost base and/or the ability to attract employees that the ANZ New Zealand Group would otherwise be able to employ;

- digital technologies and business models are changing customer behavior and the competitive environment and 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;

- consumers and businesses may choose to transact using, or to invest in, new forms of currency (such as cryptocurrencies) in relation to which the ANZ New Zealand Group may choose not to provide financial services; and

- emerging fintechs and banks partnering to develop a framework that provides third-party financial service providers open access to consumer banking, transaction, and other financial data from banks and non-bank financial institutions may lead to increased competition, which could result in weakening the profitability of banks that are slow to adapt to the changing financial system landscape. At the date of this Offering Memorandum, there is no regulatory requirement to provide third-party financial service providers open access to consumer banking, transaction, and other financial data held by registered banks in New Zealand.

Increasing competition for customers could also potentially lead to a compression in the ANZ New Zealand Group's net interest margins and/or increased advertising and related expenses to attract and retain customers.

The ANZ New Zealand Group competes with banks and other financial services firms for deposits to fund a significant portion of its balance sheet. Increased competition for deposits may increase the ANZ New Zealand Group's cost of funding. If the ANZ New Zealand Group is not able to successfully compete for deposits, it would be forced to rely more heavily on other, less stable or more expensive forms of funding, or to reduce lending. This may adversely affect the ANZ New Zealand Group's Position.

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 the ANZ New Zealand

Group's main markets and products, could lead to a material reduction in its market share, customers and margins and adversely affect the ANZ New Zealand Group's Position.

*Weakening of the real estate market in New Zealand may adversely affect the ANZ New Zealand **Group's** Position*

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

A weakening of real estate markets in New Zealand and other markets where the ANZ New Zealand Group does business could impact the ANZ New Zealand Group in a number of ways. These include:

- Declining asset prices could impact customers, counterparties and the value of security (including residential and rural property) the ANZ New Zealand Group holds against these loans, impacting its ability to recover amounts owing if 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 New Zealand, the growth of house prices has increased in the 12 months to November 2019, with the REINZ House Price Index for New Zealand ("HPI"), which measures the changing value of property in the market, up 5.6%. The HPI increased 3.5% for the 12 months to November 2018 with national house prices near historical highs. Declining asset prices may adversely affect the ANZ New Zealand Group's Position. Additionally, if New Zealand housing price growth subsides or property valuations decline, the demand for the ANZ New Zealand Group's home lending products may decrease, which may adversely affect the ANZ New Zealand Group's Position.

- The price of insurance for properties perceived to be at high risk from earthquake damage or susceptible to climate change risks, such as rising sea levels and coastal inundation, is increasing. An increase in the price of insurance could result in a) the property owner not renewing the policy; or b) additional exclusions from the policy, for example, natural hazard cover. Where either the premium cost is considered prohibitive or a property cannot be insured, this could result in a reduction in the security value of properties that the ANZ New Zealand Group holds as collateral and may give rise to credit related losses due to customers being unable or unwilling to repay debt following damage to their property, which may adversely affect the ANZ New Zealand Group's Position.

- Declining demand for the ANZ New Zealand Group's residential lending products due to buyer concerns about decreases in values, rising interest rates and/or rising unemployment may make its lending products less attractive to potential homeowners and investors. In the case of residential loans, customers with high levels of leverage could show a higher propensity to default, and in the event of such defaults the decrease in security values may cause the ANZ New Zealand Group to incur higher credit losses, which may adversely affect the ANZ New Zealand Group's Position.

- A material decline in residential housing prices may also cause losses in the ANZ New Zealand Group's residential development portfolio if customers who are pre-committed to purchase these dwellings are unable or unwilling to complete their contracts and the ANZ New Zealand Group is forced to re-sell these dwellings at a loss.

The ANZ New Zealand Group's portfolio of commercial property loans is also susceptible to asset price deflation, tenancy risk and delivery risk, which may result in higher credit losses, refinance risk and deteriorating security values.

A significant decrease in rural property valuations or a significant slowdown in real estate markets where the ANZ New Zealand Group does business could result in a decrease in new lending opportunities or lower recovery rates that may in turn materially and adversely impact the ANZ New Zealand Group's Position.

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

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

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

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

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

*The regulation, reform and replacement of benchmark rates could have adverse consequences on the ANZ New Zealand **Group's** securities issuances and its capital markets and investment activities*

Interest rate, equity, foreign exchange rate and other types of indices which are deemed to be "benchmarks" including those in widespread and long-standing use, have been the subject of ongoing international regulatory scrutiny, and initiatives and proposals for reform. Some of these reforms are already effective while others are still to be implemented or are under consideration. These reforms may cause benchmarks to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be fully anticipated.

Any of the benchmark reforms which have been proposed or implemented, or the general increased regulatory scrutiny of benchmarks, could also increase the costs and risks of administering or otherwise participating in the setting of benchmarks and complying with regulations or requirements relating to benchmarks. 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 of certain benchmarks. Any of these developments, and any future initiatives to regulate, reform or change the administration of benchmarks, could result in adverse consequences to the return on, value of and market for loans, mortgages, securities, derivatives and other financial instruments whose returns are linked to any such benchmark, including those issued, funded or held by the ANZ New Zealand Group.

Various regulators, industry bodies and other market participants globally are engaged in initiatives to develop, introduce and encourage the use of alternative rates to replace certain benchmarks. There is no assurance that these new rates will be accepted or widely used by market participants, or that the characteristics of any of these new rates will be similar to, or produce the economic equivalent of, the benchmarks that they seek to replace. If a particular benchmark were to be discontinued and an alternative rate has not been successfully introduced to replace that benchmark, this could result in widespread dislocation in the financial markets, engender volatility in the pricing of securities, derivatives and other instruments, and suppress capital markets activities, all of which could have adverse effects on the ANZ New Zealand Group's Position. In addition, the transition of a particular benchmark to a replacement rate could affect hedge accounting relationships between financial instruments linked to that benchmark and any related derivatives, which could adversely affect the ANZ New Zealand Group's Position.

In July 2017, the FCA, which regulates LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. In a subsequent announcement in July 2018, the FCA emphasized the need for market participants to transition away from LIBOR before the end of 2021. Such announcements indicate that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021, and there is a substantial risk that LIBOR will be discontinued or modified by 2021. Vast amounts of loans, mortgages, securities, derivatives and other financial instruments are linked to the LIBOR benchmark, and any failure by market participants and regulators to successfully introduce benchmark rates to replace LIBOR and implement effective transitional arrangements to address the discontinuation of LIBOR could result in disruption in the financial markets, suppress capital markets activities and give rise to litigation claims, all of which could have a negative impact on the ANZ New Zealand Group's Position and on the value of LIBOR-linked securities or other instruments which are issued, funded or held by the ANZ New Zealand Group.

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

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

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

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

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

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

Sovereign risk is the risk that governments will default on their debt obligations, be unable to refinance their debts as and when they fall due or nationalize parts of their economy. Sovereign risk remains in many economies, including the United States, the United Kingdom, China, Europe, Australia and New Zealand. Should one sovereign default, there could be a cascading effect to other markets and countries, the consequences of which, while difficult to predict, may be similar to or worse than those experienced during the global financial crisis and subsequent sovereign debt crises.

Such events could destabilize global financial markets and adversely affect the ANZ New Zealand Group's Position.

<u>Risks related to the **Issuer's** financial situation</u>

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

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

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

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

For example, the ANZ New Zealand Group's customers and counterparties in or with exposure to:

- increased geopolitical risk including the continuation or escalation of the trade conflict between the U.S. and China may impact the outlook for commodity prices due to a growing possibility of declining global growth. A further or sustained slowdown in global economic growth or a decline in commodity prices could depress the volume and price of exports, such as dairy and agricultural prices in New Zealand, with negative flow-on effects for those industries closely tied to the export sector. 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; and

- segments reliant on consumer discretionary spend in New Zealand that are exposed to a slowdown in spending levels arising from the impact of a combination of a slowing housing market, low wage growth and high household debt. Impacted segments may include specialty retail, department stores and discretionary retail leisure travel.

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

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

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

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

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

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

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

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

APRA and the RBNZ have implemented prudential standards to accommodate Basel III. Certain other regulators have either implemented or are in the process of implementing regulations, including Basel III, that seek to strengthen, among other things, the liquidity and capital requirements of banks, funds management entities and insurance entities, though there can be no assurance that these regulations have had or will have their intended effect. These regulations, together with any risks arising from any regulatory changes (including those arising from the RBNZ's review of capital requirements), are described in the risk factor "—Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the ANZ New Zealand Group's Position" and "Regulation and Supervision". An inability to maintain the ANZ New Zealand Group's regulatory capital may have a material adverse effect on ANZ New Zealand Group's Position.

On December 5, 2019, the RBNZ announced its final decisions from its review of the capital adequacy framework for registered banks in New Zealand. For more information about the RBNZ's capital reforms, see "Regulation and Supervision—New Zealand Regulatory Developments—RBNZ review of capital requirements". The RBNZ's capital reforms will result in substantially higher capital requirements for New Zealand incorporated registered banks operating under the Basel Standardized Measurement Approach ("Standardized approach") calculated in accordance with BS2A, and even higher capital requirements for New Zealand incorporated registered banks using Internal Ratings Based ("IRB") models (including ANZ New Zealand). The increased capital requirements may also result in changes to affected banks' business objectives and result in changes to competitive behavior across the New Zealand banking industry. For example, there may be increased competition between banks using the IRB approach and banks using the Standardized approach, and between those banks affected by the reforms and offshore banks operating in New Zealand via branches that are not affected by the reforms. The increased capital requirements may also affect the price and volume of bank credit made available to affected banks' customers. This may affect customers' business prospects or creditworthiness, as well as the performance of the New Zealand economy. The RBNZ's reforms will result in a material increase in the level of capital that the ANZ New Zealand Group is required to hold, although the amount of the increase is currently uncertain. ANZ New Zealand's total capital as at September 30, 2019 was NZ$13,226 million. The reforms could have a material impact on the ANZ New Zealand Group and its business, including on its capital allocation and business planning. Additionally, the changes may require ANZ New Zealand's ultimate parent company, ANZBGL, to review and reconsider its size, nature and operations in New Zealand, including the total capital invested and business structure. Of the ANZ New Zealand Group's NZ$1.8 billion net profit after tax for the year ended September 30, 2019, approximately 80% has been retained in response to the proposals. See "Overview—Recent Developments—RBNZ review of capital requirements" and "Regulation and Supervision—New Zealand Regulatory Developments—RBNZ review of capital requirements" for further information.

In April 2019, ANZ New Zealand informed the RBNZ that, in the course of a self-review, ANZ New Zealand discovered that it had not been using an approved model for the calculation of its ORC since December 2014. Changes have subsequently been made by the RBNZ to ANZ New Zealand's Conditions of Registration. The RBNZ decided that the ANZ New Zealand Group's ORC requirement would be calculated in accordance with BS2A, and the ANZ New Zealand's Conditions of Registration were amended to this effect from May 15, 2019. As a result, as at March 31, 2019, ANZ New Zealand's ORC requirement increased by NZ$277 million, and its capital ratios decreased by 40 basis points for CET1 capital and 60 basis points for total capital. See "Overview—Recent Developments—Non-compliance with Conditions of Registration" for further information.

As part of the Section 95 Reviews, ANZ New Zealand is continuing to work with the RBNZ and an external reviewer to undertake a review regarding ANZ New Zealand's compliance with the RBNZ's capital adequacy requirements. The findings from the Section 95 Reviews may result in a range of possible consequences for ANZ New Zealand, including changes to ANZ New Zealand's Conditions of Registration and potential increases in minimum capital requirements. See "Overview—Recent Developments—Section 95 Reviews" and "Regulation and Supervision—New Zealand Regulatory Developments—FMA and RBNZ conduct and culture review" for further information.

In August 2019, APRA released an update to APS222, which is to be effective from January 1, 2021. Further, in October 2019, APRA released a discussion paper on draft revisions to APS111, which proposes to change the Level 1 capital treatment for Australian ADIs, such as ANZBGL, investing in ADIs (or overseas equivalents such as ANZ New Zealand) and insurance subsidiaries. For a description of the changes to APS222 and APS111, see "Overview—Recent Developments—Effect of APRA's Related Entities Framework and APS111 Capital Adequacy Measurement of Capital."

If implemented, these APS111 changes would reduce ANZBGL's Level 1 Tier 1 capital base and exposure to the ANZ New Zealand Group for the purposes of APS222 reporting. As a result, ANZBGL's expected exposure to the ANZ New Zealand Group at January 1, 2021 would be compliant with the revised APS222 limits.

However, if the APS111 changes are not implemented and the APS222 changes become effective, it is still possible that the changes outlined in APRA's announcement in connection with APS222 could adversely impact the ANZ New Zealand Group's Position, its credit ratings and its ability to grow its business as ANZBGL's exposure to ANZ New Zealand would be near the limit of 25% of Level 1 Tier 1 capital, although ANZBGL would be able to apply for transition relief.

For further information, see "Overview—Recent Developments—Effect of APRA's Related Entities Framework and APS111 Capital Adequacy Measurement of Capital".

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

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

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

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

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

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

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

Liquidity and funding risk is the risk that ANZ New Zealand Group is unable to meet its payment obligations as they fall due (including repaying depositors or maturing wholesale debt) or that the ANZ New Zealand Group has insufficient capacity to fund increases in assets. Liquidity and funding risk is inherent in all banking operations due to the timing mismatch between cash inflows and cash outflows. Reduced liquidity could lead to an increase in the cost of the ANZ New Zealand Group's borrowings and constrain the volume of new lending that may adversely affect the ANZ New Zealand Group's Position.

Deterioration in market conditions and/or investor confidence in the ANZ New Zealand Group may materially impact its ability to replace maturing liabilities and access funding (in a timely and cost effective manner), which may adversely impact the ANZ New Zealand Group's Position.

The ANZ New Zealand Group raises funding from a variety of sources, including customer deposits and wholesale funding in New Zealand and in offshore markets to meet its funding requirements and to maintain or grow its business generally. Developments in major markets can adversely affect liquidity in global capital markets. For example, in times of liquidity stress, if there is damage to market confidence in the ANZ New Zealand Group or if funding inside or outside of New Zealand is not available or constrained, the ANZ New Zealand Group's ability to access sources of funding and liquidity may be constrained and it will be exposed to liquidity and funding risk. In 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 the ANZ New Zealand Group's credit ratings at that time (which are strongly influenced by New Zealand's sovereign credit rating and Australia's sovereign credit rating). Even if available, the cost of these funding alternatives may be more expensive or on unfavorable terms that may adversely affect the ANZ New Zealand Group's Position.

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

Under NZ IFRS, the ANZ New Zealand Group applies accounting standards that require that various financial instruments, including derivative instruments, assets and liabilities classified as fair value through other comprehensive income, and certain other assets and liabilities are measured at fair value with changes in fair value recognized in earnings or equity.

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

In addition, the ANZ New Zealand Group may be exposed to a reduction in the value of non-lending related assets as a result of impairments that are recognized in earnings. The ANZ New Zealand Group is required to assess the recoverability of goodwill balances at least annually and other non-lending related assets including premises and equipment, investment in associates, capitalized software and other intangible assets where there are indicators of impairment.

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

As at September 30, 2019, the ANZ New Zealand Group carried a goodwill balance of NZ$3,160 million. Similarly, as at September 30, 2019, the ANZ New Zealand Group carried capitalized software balances and other intangible assets of NZ$116 million and the recoverability of these assets is assessed for indicators of impairment at least annually.

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

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

The accounting policies that the ANZ New Zealand Group applies are fundamental to how it records and reports its financial position and results of operations. Management must exercise judgement in selecting and applying many of these accounting policies so that they not only comply with the applicable accounting standards or interpretations but that they also reflect the most appropriate manner in which to record and report on the ANZ New Zealand Group's financial position and results of operations. However, these accounting policies may be applied inaccurately, resulting in a misstatement of the ANZ New Zealand Group's financial position. In addition, the application of new or revised accounting standards or interpretations may adversely affect the ANZ New Zealand Group's financial position. The accounting policies for the ANZ New Zealand Financial Statements at and for the financial years ended September 30, 2019 and September 30, 2018 are set forth in Note 1 to the 2019 ANZ New Zealand Financial Statements and the 2018 ANZ New Zealand Financial Statements.

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

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

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

As at September 30, 2019, the rights to cash flows associated with housing loans and related securities with a carrying value of NZ$11,599 million or 6.8% of ANZ New Zealand's total assets were held in the ANZNZ Covered Bond Trust. The assets of the ANZNZ Covered Bond Trust do not qualify for derecognition as ANZ New Zealand retains substantially all of the risks and rewards of the transferred assets. Therefore, the establishment of the covered bond program and the ANZNZ Covered Bond Trust do not change ANZ New Zealand's financial statements.

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

Legal and regulatory risk

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

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

The resources allocated to the regulation and supervision of financial services groups, such as the ANZ New Zealand Group, and the enforcement of laws against them, have increased substantially in recent years, particularly in New Zealand and Australia. As a result, the regulation and supervision of financial services groups has become increasingly extensive and complex across the Relevant Jurisdictions. Such regulation and supervision continue to evolve.

New Zealand Developments

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

- *Prudential Developments*: The ANZ New Zealand Group continues to expect increased regulatory focus on capital and liquidity requirements. For example, the RBNZ, APRA, the Basel Committee on Banking Supervision and regulators in other jurisdictions have revised standards and released discussion papers, proposals and decisions in regards to strengthening the resilience of the banking sector. Further changes to the RBNZ's prudential standards are expected to increase the level of regulatory capital that the ANZ New Zealand Group is required to maintain, restrict the ANZ New Zealand Group's flexibility, require it to incur substantial costs and/or impact the profitability of one or more of its business lines, any of which may adversely affect the ANZ New Zealand Group's Position. For example, the following RBNZ reviews and policies may have a material impact on ANZ New Zealand's Position.

    - *Review of capital requirements*: See "Risk Factors—Risks related to the Issuer's financial situation—Challenges in managing the ANZ New Zealand Group's capital base could give rise to greater volatility in capital ratios, which may adversely affect the ANZ New Zealand Group's Position" and "Regulation and Supervision—New Zealand Regulatory Developments—RBNZ review of capital requirements" for further discussion.

    - *RBNZ Liquidity Policy:* BS13 sets out the RBNZ's policy on management of liquidity risk by registered banks in New Zealand. The objective of BS13 is to contribute to the effective functioning of the New Zealand financial system by reducing the likelihood of a liquidity problem affecting a registered bank. BS13 requires registered banks to meet a minimum core funding ratio of 75%, ensuring that at least a minimum proportion of bank funding is met through customer deposits, term wholesale funding and Tier 1 capital. The RBNZ has previously stated that it will be reviewing its liquidity policy in light of the Basel Committee on Banking Supervision's new liquidity requirements. Future changes to liquidity requirements in New Zealand may adversely affect the ANZ New Zealand Group's Position and may result in it incurring substantial costs in order to comply with such changes.

    - *Review of mortgage bond collateral standards:* The RBNZ is currently consulting on the terms under which it would be prepared to accept mortgage bonds (such as residential mortgage-backed securities or covered bonds) as collateral for its lending operations in the future, and is proposing a new Residential Mortgage Obligations ("RMO") standard. The proposed new RMO standard would introduce new requirements that ANZ New Zealand's mortgage bonds would need to comply with in order to be accepted as collateral for the RBNZ's lending operations. Failure to comply with the new requirements would result in ANZ New Zealand's mortgage bonds not being treated as eligible collateral, which may adversely affect the ANZ New Zealand Group's Position. Compliance with the new RMO standard would also involve compliance costs for the ANZ New Zealand Group. See "Regulation and Supervision—New Zealand Regulatory Developments—RBNZ review of mortgage bond collateral standards" for further discussion.

    - *RBNZ regulatory approach*: The RBNZ announced in June 2019 that it would intensify its supervision of financial institutions (including ANZ New Zealand). The RBNZ indicated that financial institutions could expect more intrusive supervision, including more reviews, a deeper scrutiny of boards and management, and enforcement action in cases of non-compliance.

    - *Prudential credit controls*: The RBNZ imposes restrictions on high loan-to-value ("LVR") residential mortgage lending, and these restrictions change from time to time. Further changes to these LVR restrictions could impact the New Zealand residential lending market and adversely affect the ANZ New Zealand Group's Position. See "Regulation and Supervision—New Zealand Regulatory Developments—RBNZ prudential credit controls" for further discussion.

- *Amendments to the CCCFA*: In December 2019, the New Zealand Parliament passed legislation amending the CCCFA to better protect vulnerable consumers from irresponsible lending. On the date of this Offering Memorandum, it is uncertain what impact the amendments will have on ANZ New Zealand. However, they could result in increased compliance costs and/or liability in the case of non-compliance, which may adversely affect the ANZ New Zealand Group's Position. See "Regulation and Supervision—New Zealand Regulatory Developments—Amendments to the Credit Contracts and Consumer Finance Act 2003" for further discussion.

- *Changes to Conditions of Registration*: ANZ New Zealand is a registered bank under the Reserve Bank Act and 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 by the RBNZ at any time, although the RBNZ is required to give ANZ New Zealand notice and consider submissions made by ANZ New Zealand prior to any such change. The ANZ New Zealand Group has disclosed a number of instances of non-compliance with its Conditions of Registration. See "Overview—Recent Developments—Non-compliance with Conditions of Registration." In the event that the RBNZ were to conclude that ANZ New Zealand did not satisfy its Conditions of Registration, sanctions could be imposed on ANZ New Zealand by the RBNZ.

This may result in a range of possible consequences, including changes to ANZ New Zealand's Conditions of Registration. The impact of such consequences may adversely affect the ANZ New Zealand Group's Position.

- *Section 95 Reviews*: On July 5, 2019, the RBNZ gave ANZ New Zealand notice under section 95 of the Reserve Bank Act, requiring ANZ New Zealand to engage an external reviewer to provide reports regarding ANZ New Zealand's compliance with the RBNZ's capital adequacy requirements and the effectiveness of ANZ New Zealand's director attestation and assurance framework. See "Overview—Recent Developments—Section 95 Reviews" for further information.

- *Changes to IRB accreditation*: ANZ New Zealand has received RBNZ accreditation as an advanced IRB approach bank under the principles laid out by the Basel Committee on Banking Supervision in respect of Basel III, except for ORC, which is calculated in accordance with BS2A from March 31, 2019. That accreditation is subject to certain requirements which have been incorporated into the current Conditions of Registration. ANZ New Zealand is reviewed by both the RBNZ and APRA in terms of maintaining that accreditation. Changes to ANZ New Zealand's accreditation may adversely affect the ANZ New Zealand Group's Position.

- *Proposed conduct regulations for financial institutions:* Following the establishment of the Australian Royal Commission (as defined below) and the subsequent FMA and RBNZ joint review of conduct and culture in the New Zealand banking sector, the New Zealand Government has introduced a bill to the New Zealand Parliament that would introduce a conduct licensing regime for financial institutions. Under the proposed regime, financial institutions (including registered banks such as ANZ New Zealand) would be licensed by the FMA, and would be required to comply with a fair conduct principle in relation to their customers. Licensed institutions would also be required to establish, implement, maintain and comply with an effective fair conduct program to operationalize the fair conduct principle. As at the date of this Offering Memorandum, it is uncertain what impact the proposals may have on ANZ New Zealand. However, they could result in increased compliance costs and/or liability in the case of non-compliance, which may adversely affect the ANZ New Zealand Group's Position. See "Regulation and Supervision—New Zealand Regulatory Developments—Proposed conduct regulations for financial institutions" for further discussion.

- *New Zealand Government's review of the Reserve Bank Act:* The New Zealand Government is currently undertaking the second phase of its review of the Reserve Bank Act. The Government announced in December 2019 that it intends to replace the Reserve Bank Act with two separate pieces of legislation – the "Institutional Act" and the "Deposit Takers Act" – which will implement the decisions from this review. As at the date of this Offering Memorandum, it is uncertain what impact the review and subsequent legislative changes may have on the ANZ New Zealand Group. However, changes to the RBNZ's role, powers and supervisory approach, and other changes to the Reserve Bank Act resulting from this review, may impact the ANZ New Zealand Group's Position. See "Regulation and Supervision—New Zealand Regulatory Developments—Review of the Reserve Bank Act" for further discussion.

- *RBNZ's revised outsourcing policy*: BS11 requires large New Zealand banks, such as ANZ New Zealand, to have the legal and practical ability to control and execute outsourced functions. BS11 applies to all new outsourcing arrangements entered into from October 1, 2017. Existing outsourcing arrangements have until October 1, 2022, to transition to full compliance with BS11. ANZ New Zealand is implementing a Path-to-Compliance Plan for BS11 and incurring substantial costs to comply with the changes. The BS11 requirements form part of ANZ New Zealand's Conditions of Registration. If ANZ New Zealand does not comply with its Conditions of Registration in relation to outsourcing, sanctions could be imposed by the RBNZ. This may result in a range of possible consequences, including changes to ANZ New Zealand's Conditions of Registration. The impact of such consequences may adversely affect the ANZ New Zealand Group's Position. See "Regulation and Supervision—New Zealand Regulatory Developments—RBNZ's revised outsourcing policy" for further discussion.

See "Regulation and Supervision—New Zealand Regulatory Developments" for further discussion of these developments.

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

Australian Developments

- *Australian Royal Commission:* The Royal Commission into misconduct in the Australian banking, superannuation and financial services industries (the "Australian Royal Commission") made 76 recommendations concerning law reform, self-regulatory standards and the operations of ASIC and APRA. Depending on how the recommendations are implemented by the Australian Government and followed by regulatory agencies, they could result in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The recommendations may also lead to adjustments in the competitive environment of the ANZ Group. The outcomes and total costs associated with these possible exposures and changes remain uncertain and their impact may adversely affect the ANZ Group's Position.

- *Financial support:* In August 2019, APRA released an update to APS222, which is to be effective from January 1, 2021. Further, in October 2019, APRA released a discussion paper on draft revisions to APS111, which proposes to change the Level 1 capital treatment for Australian ADIs, such as ANZBGL, investing in ADIs (or overseas equivalents such as ANZ New Zealand) and insurance subsidiaries. See "Risk Factors—Risks related to the Issuer's financial situation—Challenges in managing the ANZ New Zealand Group's capital base could give rise to greater volatility in capital ratios, which may adversely affect the ANZ New Zealand Group's Position" for further discussion.

- *Bank levies:* The Australian Government imposed a levy on liabilities for certain large banks, including the ANZ Group, with effect from July 1, 2017 ("Major Bank Levy"). There is a risk that the Australian Government could increase the Major Bank Levy or introduce new levies on banks. Australian State and Territory governments may introduce similar levies that may adversely affect the ANZ Group's Position. 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 Offshore Developments

There have been a series of other regulatory developments in the Relevant Jurisdictions other than New Zealand and Australia. These include:

- changes to financial regulations in the United States (including legislative changes to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and potential revision to its Volcker Rule);

- changes to senior executive accountability in Singapore, Hong Kong and the UK;

- changes to English and European law in connection with Brexit;

- introduction of greater data protection regulations in Europe; and

- implementation of further phases of the initial margin requirements for uncleared OTC derivatives in a number of the Relevant Jurisdictions, and the requirement that banks prepare for the reform of EURIBOR and SIBOR, and the discontinuation of LIBOR and other such interbank offered rates by transitioning to risk free rates.

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

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

Details regarding any material contingent liabilities for ANZ New Zealand and its subsidiaries are contained in Note 28 to the 2019 ANZ New Zealand Financial Statements.

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

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

From time to time, the ANZ New Zealand Group may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities that may adversely affect ANZ New Zealand Group's Position.

The ANZ New Zealand Group's contingent liabilities as at September 30, 2019 are contained in Note 28 to the 2019 ANZ New Zealand Financial Statements (included as part of Annex A to this Offering Memorandum).

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

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

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

Anti-money laundering, counter-terrorism financing and sanctions compliance have been the subject of significant regulatory change and enforcement in recent years. The increasingly complicated environment in which the ANZ New Zealand Group operates has heightened these operational and compliance risks. Furthermore, the increased transparency of the outcomes of compliance breaches by financial institutions both domestically and globally and the related fines and settlement sums mean that these risks continue to be an area of focus for the ANZ New Zealand Group.

The risk of non-compliance with anti-money laundering, counter-terrorism financing and sanction laws remains high given the scale and complexity of the ANZ New Zealand Group. Emerging technologies, such as virtual currency issuers/exchangers and wallet providers as well as increasingly complex remittance arrangements via fintechs and other disruptors, may limit the ANZ New Zealand Group's ability to track the movement of funds. A failure to operate a robust program to combat money laundering, bribery and terrorism financing or to ensure compliance with economic sanctions may have serious financial, legal and reputational consequences for the ANZ New Zealand Group and its employees. Consequences can include fines, criminal and civil penalties, civil claims, reputational harm and limitations on doing business in certain jurisdictions. These consequences, individually or collectively, may adversely affect the ANZ New Zealand Group's Position.

The ANZ Group's foreign operations may place the ANZ Group under increased scrutiny by regulatory authorities, and subject the ANZ Group, including ANZ New Zealand, to increased compliance costs.

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

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

Many central monetary authorities have been actively reducing official interest rates, including the RBA, the RBNZ and other authorities in jurisdictions in which the ANZ New Zealand Group operates. Low or negative interest rates or other forms of unconventional monetary policy could put pressure on the ANZ New Zealand Group's interest margins and adversely affect its profitability and prospects.

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

In November 2017, the Minister of Finance announced that the Reserve Bank Act would be reviewed and reformed to create a modern monetary and financial policy framework. The first phase of the review resulted in the enactment of the Reserve Bank of New Zealand (Monetary Policy) Amendment Act 2018, which came into force on April 1, 2019. This Act made several changes to New Zealand's monetary policy framework, including establishing a Monetary Policy Committee ("MPC") to formulate monetary policy, and amending the RBNZ's monetary policy objectives to require consideration of maximum sustainable employment alongside price stability when making monetary policy decisions. The second phase of the review is currently being carried out, and is likely to result in the replacement of the Reserve Bank Act with two separate pieces of legislation – the "Institutional Act" and the "Deposit Takers Act" – which will implement the decisions from the review. Actions and policies of the RBNZ specified in the Reserve Bank Act and other changes to the Reserve Bank Act may impact the ANZ New Zealand Group's Position. As at the date of this Offering Memorandum, it is uncertain what impact the review of the Reserve Bank Act and subsequent legislative reforms may have on the ANZ New Zealand Group. See "Regulation and Supervision—New Zealand Regulatory Developments—Review of the Reserve Bank Act" for further discussion.

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

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

As a FI, the ANZ New Zealand Group operates in a high volume and globally interlinked operating environment. In this context, the highly complex and rigid nature of the obligations under the various global tax reporting regimes present heightened operational and compliance risks for the ANZ New Zealand Group. This may be coupled with the current increased regulatory scrutiny of global FIs (including the ANZ New Zealand Group) and the increasing trend in compliance breaches by global FIs 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.

Ongoing OECD peer review and other regulatory review activities are 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 non-compliance.

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

- a 30% withholding tax on certain amounts (including amounts payable to customers), and be required to provide certain information to upstream payers, as well as other adverse consequences, if the ongoing detailed obligations are not adequately met; and

- broader compliance issues, significant withholding exposure, competitive disadvantage and other operational impacts if the FATCA Intergovernmental Agreements ("IGAs") between the U.S. and the applicable jurisdictions in which the ANZ New Zealand Group operates cease to be in effect.

Under the CRS the ANZ New Zealand Group:

- faces challenges in developing countries where the ANZ Group has operations, such as the Pacific region. The local regulators in these countries are generally assisted by a 'partner' country which may introduce standards that can be challenging to implement;

- must deal with considerable country specific variations in local law and regulatory implementation, with significant local regulatory penalties for non-collection or failed reporting in respect of prescribed customer information; and

- along with other FIs, is under increasingly stringent regulatory scrutiny and measures as regulators turn their focus from initial establishment of the CRS to its effective implementation. This tightening of the regulatory focus can lead to significant negative experience for affected customers (including unilateral account blocking and closure), may adversely affect the ANZ New Zealand Group's Position and if not similarly implemented by other FIs, may present a significant competitive disadvantage.

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

Internal control, operations and reputational risk

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

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

Operational risk events include:

- internal fraud (for example, involving employees or contractors);
- external fraud (for example, fraudulent loan applications or ATM skimming);
- employment practices, loss of key staff, inadequate workplace safety and failure to effectively implement employment policies;
- impacts on clients, products and business practices (for example, misuse of customer data or anti-competitive behavior);
- business disruption (including systems failures);
- damage to physical assets; and
- execution, delivery and process management (for example, processing errors or data management failures).

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

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

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

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

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

- failure to comply with the ANZ New Zealand Group's Conditions of Registration (for example, see "Overview—Recent Developments—Non-compliance with Conditions of Registration" and "Overview—Recent Developments—Section 95 Reviews");
- failures related to fulfilment of identification obligations;
- failures related to new product development;
- failures related to ongoing product monitoring activities;

- failures related to suitability requirements when products are sold outside of the target market;
- market manipulation or anti-competitive behavior;
- failure to comply with disclosure obligations;
- inappropriate crisis management/response to a crisis event;
- inappropriate handling of customer complaints;
- inappropriate third party arrangements;
- privacy breaches; and
- unexpected risks (e.g. credit, market, operational or compliance).

Damage to the ANZ New Zealand Group's reputation may have wide-ranging impacts, including adverse effects on its profitability, capacity and cost of 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 may adversely affect the ANZ New Zealand Group's Position.

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

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

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

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

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

Conduct-related risk events or behaviors may adversely affect the ANZ New Zealand ***Group's*** *Position*

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

Conduct-related risks can result from:

- the provision of unsuitable or inappropriate advice to customers;
- the representation of, or disclosure about, a product or service which is inaccurate, or does not provide adequate information about risks and benefits to customers;

- a failure to deliver product features and benefits in accordance with terms, disclosures, recommendations and/or advice;
- a failure to appropriately avoid or manage conflicts of interest;
- 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.

There has been an increasing regulatory and community focus on conduct-related risk globally and in particular, New Zealand and Australia. For example, the ANZ New Zealand Group is currently undertaking a variety of customer remediation programs, of which some relate to conduct issues that have been identified from reviews to date and these reviews remain on-going. Conduct-related risk events may expose the ANZ New Zealand Group to regulatory actions, restrictions or conditions on banking licenses and/or reputational consequences which may adversely affect the ANZ New Zealand Group's Position. Remediation programs may not be implemented appropriately or may lead to further remediation work being required, resulting in litigation, regulatory action and/or increasing cost to the ANZ New Zealand Group, all of which may adversely affect the ANZ New Zealand Group's Position.

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

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

The ANZ New Zealand Group's day-to-day activities and its service offerings (including digital banking) are highly dependent on information technology systems. Therefore, there is a risk that disruption or unavailability of information technology systems, or the services the ANZ New Zealand Group uses or is dependent upon, will result in the ANZ New Zealand Group failing to meet customers' banking requirements and/or failing to meet compliance obligations and regulators' expectations.

Threats to information technology systems are continuously evolving and 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 minimize disruptions caused by cyber threats because the techniques used can be highly sophisticated and those perpetuating the attacks may be well-resourced.

The ANZ New Zealand Group has an ongoing obligation to maintain information technology systems, to ensure currency and information security resiliency, to manage risks to information technology through systems and measures and to enhance business capabilities and digital banking services for the ANZ New Zealand Group's customers. The ANZ New Zealand Group may not implement this effectively or execute this obligation efficiently, which could lead to business interruption, customer dissatisfaction, increased costs, legal actions, delays in complying with regulatory requirements and the imposition of regulatory fines, unstable or insecure systems or a decrease in the ANZ New Zealand Group's ability to service its customers and ultimately damage to its reputation and/or weakening of its competitive position, which may adversely affect the ANZ New Zealand Group's Position.

The ANZ New Zealand Group relies on ANZBGL to provide a number of information technology systems. A failure of the ANZ Group's systems may directly affect the ANZ New Zealand Group.

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

Information security means protecting information and technology systems from disruptions to confidentiality, integrity or availability. As a bank, the ANZ New Zealand Group handles a considerable amount of personal and confidential information about its customers and its own internal operations, including in Australia, New Zealand, India, the United States, Europe, Singapore and China. This information is processed and stored on both internal and third party hosted environments, hence security controls need to be operated effectively by the ANZ New Zealand Group and its third parties and related parties to ensure information is safeguarded.

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

The ANZ New Zealand Group is conscious that cyber threats, such as advanced persistent threats, distributed denial of service, malware and ransomware, are continuously evolving, becoming more sophisticated and increasing in volume. Any failure in the ANZ Group's cybersecurity policies, procedures or controls, may result in significant financial losses, major business disruption, inability to deliver customer services, or loss of data or other sensitive information (including as a result of an outage) and may cause associated reputational damage. Any of these factors could increase costs (including costs relating to notification of, or compensation for customers), and may result in regulatory investigations or sanctions being imposed or may affect the ANZ New Zealand Group's ability to retain and attract customers, and thus may adversely affect the ANZ New Zealand Group's Position.

Environmental, social and governance risks

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

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

The effectiveness of the ANZ New Zealand Group's risk management framework is also connected to the establishment and maintenance of a sound risk management culture, which is supported by appropriate remuneration structures. If the remuneration structures are not designed or implemented effectively, then this could have an adverse impact on the ANZ New Zealand Group's risk culture and effectiveness of its risk management frameworks.

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

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

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

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

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

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

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

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

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

Risks relating to the Notes

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

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

Modification and waivers and substitution bear certain risks

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

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

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

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

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

Risks relating to insolvency and similar proceedings in New Zealand

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

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

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

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

<u>Risks related to particular types of all Notes which may be issued under this program</u>

Fixed/Floating Rate Notes bear certain risks

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

Floating Rate Notes with caps or floors bear certain risks

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

Inverse Floating Rate Notes with caps or floors bear certain risks

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

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

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

Notes issued at a substantial discount or premium bear certain risks

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

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

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

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

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

The Secured Overnight Financing Rate ("SOFR") is published by the Federal Reserve Bank of New York and is intended to be a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities and a current preferred replacement rate to U.S. dollar LIBOR. The composition and characteristics of SOFR are not the same as those of LIBOR where the index currency is U.S. dollars. There can be no assurance that SOFR will perform in the same way as LIBOR where the index currency is U.S. dollars would have at any time. The Federal Reserve Bank of New York notes on its publication page for SOFR that the Federal Reserve Bank of New York may alter the methods of calculation, publication schedule, rate revision practices or availability of SOFR at any time without notice. The Federal Reserve Bank of New York has no obligation to consider the interests of holders of the Notes in calculating, adjusting, converting, revising or discontinuing SOFR.

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

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

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

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

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

Furthermore, SOFR Notes have certain fallback arrangements in the event that the SOFR reference rate is not available on the Website of the Federal Reserve Bank of New York (as defined below) in relation to any U.S. Government Securities Business Day (as defined in "Description of the Notes and the Guarantee—Interest rates—Special Rate Calculation Terms"), as described in "Description of the Notes and the Guarantee—Interest rates—Base Rates—Benchmark Replacement for Notes other than LIBOR Notes where the index currency is U.S. dollars", including that the SOFR reference rate may be (i) the daily secured overnight financing rate in respect of the last U.S. Government Securities Business Day for which such rate was published on the Website of the Federal Reserve Bank of New York; or (ii) (A) if the rate specified in clause (i) of the definition of SOFR under "Description of the Notes and the Guarantee—Interest rates—Special Rate Calculation Terms" is not so published and (B) a SOFR Index Cessation Event and a SOFR Index Cessation Effective Date have both occurred, the Calculation Agent (as defined herein) will determine interest on the affected Floating Rate Note in accordance with the "Benchmark Replacement for Notes other than LIBOR Notes where the index currency is U.S. dollars" provisions described under "Description of the Notes and the Guarantee—Interest rates—Base Rates—Benchmark Replacement for Notes other than LIBOR Notes where the index currency is U.S. dollars".

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

The London Inter-Bank Offered Rate ("LIBOR") and other benchmark indices are the subject of recent national, international and other regulatory guidance and proposals for reform. The implementation of such reforms and consequential changes to benchmark indices may cause such indices to perform differently than in the past, which could have a material adverse effect on the yield on or value of any Floating Rate Notes where the interest rate is calculated with reference to benchmark indices or may have other consequences that cannot be predicted.

In the EU, the Benchmarks Regulation is a key element of ongoing regulatory reform and has applied, subject to certain transitional provisions, since January 1, 2018.

The Benchmarks Regulation applies to the contribution of input data to a benchmark, the administration of a benchmark, and the use of a benchmark in the EU. Among other things, the Benchmarks Regulation requires EU benchmark administrators to be authorised or registered as such and to comply with extensive requirements relating to benchmark administration. It also prohibits certain uses by EU supervised entities of (a) benchmarks provided by EU administrators which are not authorized or registered in accordance with the Benchmarks Regulation and (b) benchmarks provided by non-EU administrators where (i) the administrator's regulatory regime has not been determined to be "equivalent" to that of the EU, (ii) the administrator has not been recognized in accordance with the Benchmarks Regulation, and (iii) the benchmark has not been endorsed in accordance with the Benchmarks Regulation.

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

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

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

Additionally, among other developments, relevant authorities are strongly encouraging the transition away from Interbank Offered Rates ("IBORs"), such as LIBOR, and have identified "risk free rates" to eventually take the place of such IBORs as primary benchmarks. This includes (i) for sterling LIBOR, a reformed Sterling Overnight Index Average ("SONIA"), so that SONIA may be established as the primary sterling interest rate benchmark by the end of 2021, (ii) for EONIA and EURIBOR, a new Euro Short-Term Rate as the new euro risk free rate, and (iii) for LIBOR where the index currency is U.S. dollars, the Alternative Reference Rates Committee, a committee convened by the Federal Reserve Bank of New York that includes major market participants, proposed that SOFR eventually be established as the primary U.S. dollar interest rate benchmark. The risk free rates have a different methodology and other important differences from the IBORs they will eventually replace and have little, if any, historical track record. It is not known whether certain IBORs will continue long-term or in their current form.

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

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

The occurrence of a Benchmark Disruption Event in respect of Notes may adversely affect the return on and the market value of such Notes

The Notes provide for certain fallback arrangements in the event that a Base Rate, such as LIBOR (not including LIBOR Notes where the index currency is U.S. dollars) has ceased to be published on the relevant Reuters Page as a result of such benchmark ceasing to be calculated or administered or it is determined that a change in generally accepted market practice has occurred (as further described in the definition of "Benchmark Disruption Event" in "Description of the Notes and the Guarantee—Base Rates—Benchmark Replacement for Notes other than LIBOR Notes where the index currency is U.S. dollars"), or, in the case of SOFR Notes, (1) the rate specified in clause (i) of the definition of SOFR under "Description of the Notes and the Guarantee—Interest rates—Special Rate Calculation Terms" is not published and (2) a SOFR Index Cessation Event and a SOFR Index Cessation Effective Date have both occurred, including the possibility that the Base Rate could be set by reference to a substitute or successor rate that the Calculation Agent has determined in its sole discretion to be (a) the industry-accepted successor rate to the Base Rate or (b) if no such industry-accepted successor rate exists, the most comparable substitute or successor rate to the relevant Base Rate and that the Calculation Agent may determine any relevant methodology for calculating such substitute or successor rate, including any adjustment factor it determines is needed to make such substitute or successor rate comparable to the relevant Base Rate, in a manner that is consistent with industry-accepted practices for such substitute or successor rate. For the risks related to the benchmark fallback provisions for LIBOR Notes where the index currency is U.S. dollars, see "—The occurrence of a Benchmark Transition Event and its related Benchmark Replacement Date in respect of LIBOR Notes where the index currency is U.S. dollars may adversely affect the return on and the market value of such Notes." In certain circumstances under the Benchmark Replacement provisions, the ultimate fallback rate of interest for a particular interest period may result in the rate of interest determined for the previous interest period being used. This may result in the effective application of a fixed interest rate for a Floating Rate Note based on the interest rate that was in effect for the prior interest period. In addition, due to the uncertainty concerning the availability of substitute or successor rates, the relevant fallback provisions may not operate as intended at the relevant time. No consent of the holders shall be required in connection with effecting any relevant substitute or successor rate or any other related adjustments. The use of a substitute or successor rate may result in interest payments that are substantially lower than or that do not otherwise correlate over time with the payments that could have been made on the relevant Floating Rate Notes if the relevant Base Rate remained available in its current form. Any of the above changes or any other consequential changes to LIBOR or any other Base Rate as a result of international, national or other proposals for reform or other initiatives or investigations, could result in adjustment to the terms of the relevant Floating Rate Notes or other consequences, depending on the specific provisions of the relevant Floating Rate Notes, and could have a material adverse effect on the yield on or value of any Floating Rate Notes linked to a Base Rate.

The occurrence of a Benchmark Transition Event and its related Benchmark Replacement Date in respect of LIBOR Notes where the index currency is U.S. dollars may adversely affect the return on and the market value of such Notes

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

As described in "Description of the Notes and the Guarantee—Interest rates—Base Rates—Benchmark Replacement for LIBOR Notes where the index currency is U.S. dollars", if a Benchmark Transition Event and its related Benchmark Replacement Date occur with respect to LIBOR where the index currency is U.S. dollar, and if the relevant Issuer or its designee cannot determine the relevant LIBOR rate by means of interpolating from other tenors of LIBOR, then the rate of interest on the Notes will be determined based on SOFR (unless a Benchmark Transition Event and its related Benchmark Replacement Date also occur with respect to the Benchmark Replacements that are linked to SOFR, in which case the rate of interest will be based on the next-available Benchmark Replacement).

The Benchmark Replacements specified in the Notes include Term SOFR, a forward-looking term rate which will be based on SOFR. Term SOFR is currently being developed under the sponsorship of the Federal Reserve Bank of New York, and there is no assurance that the development of Term SOFR will be completed. Further, due to uncertainty concerning the availability of certain of the fallback benchmark replacements, such as Term SOFR and Compounded SOFR, the relevant fallback provision may not operate as intended. If a Benchmark Transition Event and its related Benchmark Replacement Date occur with respect to LIBOR where the index currency is U.S. dollars, and if the relevant Issuer or its designee cannot determine the relevant LIBOR rate by means of interpolating from other tenors of LIBOR, and, at that time, a form of Term SOFR has not been selected or recommended by the Relevant Governmental Body, then the next-available Benchmark Replacement will be used to determine the amount of interest payable on the Notes during the applicable interest period or in respect of the applicable interest determination date, as the case may be, for the next applicable interest period, as the case may be, and all subsequent interest periods (unless a Benchmark Transition Event and its related Benchmark Replacement Date occur with respect to that next-available Benchmark Replacement). For further information on the risks related to SOFR, see "—The market continues to develop in relation to Notes that reference SOFR".

If a particular Benchmark Replacement or Benchmark Replacement Adjustment cannot be determined, then the next-available Benchmark Replacement or Benchmark Replacement Adjustment will apply. These replacement rates and adjustments may be selected or formulated by (i) the Relevant Governmental Body (such as the Alternative Reference Rates Committee), (ii) ISDA or (iii) in certain circumstances, the relevant Issuer or its designee. In addition, the relevant Issuer or its designee can make Benchmark Replacement Conforming Changes with respect to, among other things, the determination of interest periods and the timing and frequency of determining rates and making payments of interest.

No consent of the holders shall be required in connection with effecting any Benchmark Replacement, Benchmark Replacement Adjustment or Benchmark Replacement Conforming Changes. The application of a Benchmark Replacement, Benchmark Replacement Adjustment and Benchmark Replacement Conforming Changes, any decisions, determinations or elections made by the relevant Issuer or its designee in connection with Benchmark Replacement, Benchmark Replacement Adjustment and Benchmark Replacement Conforming Changes, as well as the implementation of Benchmark Replacement Conforming Changes, could result in adverse consequences to the amount of interest on the Notes which could adversely affect the return on, value of and market for such Notes. Further, there is no assurance that the characteristics of any Benchmark Replacement will be similar to the then-current LIBOR rate (where the index currency is U.S. dollars) that it is replacing, or that any Benchmark

Replacement will produce the economic equivalent of the then-current LIBOR rate (where the index currency is U.S. dollars) that it is replacing.

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

With respect to any series of LIBOR Notes where the index currency is U.S. dollars, if a Benchmark Transition Event and related Benchmark Replacement Date occur with respect to U.S. dollar LIBOR for the applicable index maturity, the interest rate on such series of LIBOR Notes where the index currency is U.S. dollars will thereafter be determined by reference to the applicable Benchmark Replacement. A Benchmark Transition Event includes, among other things, a public statement or publication of information by the regulatory supervisor for the administrator of U.S. dollar LIBOR announcing that U.S. dollar LIBOR of the applicable index maturity is no longer representative. The interest rate on the relevant series of LIBOR Notes where the index currency is U.S. dollars may, therefore, cease to be determined by reference to U.S. dollar LIBOR for the applicable index maturity, and instead be determined by reference to a Benchmark Replacement, even if U.S. dollar LIBOR for such index maturity continues to be published. Such replacement rate may be lower than U.S. dollar LIBOR for the applicable index maturity for so long as U.S. dollar LIBOR for such index maturity continues to be published, and the value of and return on the relevant series of LIBOR Notes where the index currency is U.S. dollars may be adversely affected.

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

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

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

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

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

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

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

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

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

Risks related to Legal and other Risks

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

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

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

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

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

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

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

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

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

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

Use of Proceeds

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

Capitalization, Funding and Capital Adequacy

The following table sets out the consolidated capitalization and capital adequacy of the ANZ New Zealand Group as at September 30, 2019. This information has been extracted from the 2019 ANZ New Zealand Financial Statements, included as part of Annex A to this Offering Memorandum. For more information concerning the ANZ New Zealand Group's capitalization and capital adequacy see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Offering Memorandum.

	As at September 30, 2019	
	(US$ millions, except as indicated)[1]	(NZ$ millions, except as indicated)
Capitalization and Funding		
Settlement balances payable	1,006	1,607
Collateral received	621	991
Deposits and other borrowings	71,028	113,427
Derivative financial instruments	6,915	11,042
Current tax liabilities	63	101
Deferred tax liabilities	-	-
Payables and other liabilities	726	1,159
Provisions		
Credit impairment on net loans and advances	311	497
Other	283	452
Total provisions	594	949
Debt issuances[7]	16,411	26,207
Total equity[2]	9,036	14,430
Total Capitalization and Funding[3,4,5]	106,400	169,913
Capital Adequacy		
Tier 1 capital		
Common equity tier 1 capital		
Paid up ordinary shares issued by ANZ New Zealand	7,256	11,588
Retained earnings (net of appropriations)	1,579	2,521
Accumulated other comprehensive income and other disclosed reserves	13	21
Less deductions from common equity tier 1 capital		
Goodwill and intangible assets, net of associated deferred tax liabilities	(2,051)	(3,276)
Deferred tax assets less deferred tax liabilities relating to temporary differences	(67)	(107)
Cash flow hedge reserve	(17)	(27)
Expected losses to the extent greater than total eligible allowances for impairment	(172)	(274)
Common equity tier 1 capital	6,541	10,446
Additional tier 1 capital		
Preference shares	188	300
ANZ Capital Notes	1,529	2,441
Retained earnings of the Bonus Bonds Scheme	37	59
Less deductions from additional tier 1 capital		
Surplus retained earnings of the Bonus Bonds Scheme	(13)	(20)
Additional tier 1 capital	1,741	2,780
Total tier 1 capital	8,282	13,226
Total tier 2 capital	-	-
Total capital	8,282	13,226
Capital ratios (%)		
Common equity tier 1 capital	10.8%	10.8%
Tier 1 capital	13.6%	13.6%
Total capital	13.6%	13.6%
Buffer ratio	5.6%	5.6%

(1) For the convenience of the reader, the financial data for the financial year ended September 30, 2019 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 30, 2019 of NZ$1.00=US$0.6262.

(2) Total equity at September 30, 2019 comprised (NZ$ millions):

	As at September 30, 2019
Ordinary share capital	11,588
Preference share capital	300
Reserves	21
Retained earnings	2,521
Total equity	14,430

All of the ordinary share capital has been issued. The number of issued ordinary shares at September 30, 2019, was 6,345,755,498 of which 6,345,104,786 were fully paid. 650,712 shares were uncalled and unpaid.

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

(3) As at September 30, 2019, all funding was unsecured except for: UDC secured investments of $128 million, covered bonds of $4,460 million, securities sold under repurchase agreements of $203 million, cash collateral received on derivative financial instruments of $991 million, and derivative financial liabilities which are secured by $2,324 million of cash collateral given on derivative financial instruments.

(4) Face or contract value of contingent liabilities and guarantees outstanding as at September 30, 2019 amounted to $2,750 million.

(5) Total due to ANZBGL as at September 30, 2019, consisted of (NZ$ millions):

	As at September 30, 2019
Settlement balances payable	66
Deposits and other borrowings	44
Derivative financial liabilities	4,781
Payables and other liabilities	24
Debt issuances[7]	1,956
Total due to ANZBGL	6,871

The following table sets out the capitalization and funding of ANZNIL as at September 30, 2019, and has been extracted from the ANZNIL Unaudited Financial Statements, included as part of Annex A-1 to this Offering Memorandum.

NZ$ millions (unless otherwise stated)	As at September 30, 2019	
	US$ millions[1]	
Capitalization and Funding		
Accrued interest payable	14	23
Commercial paper	1,540	2,460
Current tax liabilities	1	1
Debt issuances[7]	12,331	19,691
Total equity[2,8]	5	8
Total Capitalization and Funding[3,4,5,6]	13,891	22,183

(1) Translated from NZ dollars into U.S. dollars using the Noon Buying Rate on September 30, 2019 of NZ$1.00=US$0.6262.

(2) Total ANZNIL equity at September 30, 2019, consists of retained profits and ordinary share capital. All of ANZNIL's ordinary share capital has been issued. The number of issued and paid up ordinary shares as at September 30, 2019 was 500,000.

(3) As at September 30, 2019, commercial paper of $2,461 million and debt issuances of $19,691 million issued by ANZNIL were guaranteed by ANZ New Zealand.

(4) As at September 30, 2019, covered bonds with a carrying value of $4,370 million included in debt issuances were also guaranteed by ANZNZ Covered Bond Trust Limited as trustee of ANZNZ Covered Bond Trust.

(5) There were no contingent liabilities and guarantees of ANZNIL outstanding as at September 30, 2019.

(6) As of the date of this Offering Memorandum, there has been no material change in the capitalization and funding and amount of contingent liabilities and guarantees of ANZNIL since September 30, 2019.

(7) Refers to the total amount of all outstanding unsubordinated debt (including senior debt and covered bonds) and subordinated debt at the end of the reported financial period.

(8) ANZNIL equity as at December 31, 2019, has decreased by NZ$2.0 million from September 30, 2019 (NZ$8.0 million). This includes a NZ$3.5 million decrease from an increase in the allowance for expected credit losses on the receivable from ANZ New Zealand of over NZ$22 billion (increase is less than 0.02% of the gross receivable).

Regulation and Supervision

The supervisory role of the RBNZ

The Reserve Bank Act requires the RBNZ to exercise its powers of registration of banks and prudential supervision of registered banks for the purposes of:

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

- avoiding significant damage to the financial system that could result from the failure of a registered bank.

The RBNZ's policy around the registration of banks aims to ensure that only financial institutions of appropriate standing and repute are able to become registered banks. Subject to this requirement, the RBNZ has stated that it intends to keep to a minimum any impediments to the entry of new registered banks, in order to encourage competition in the banking system.

The RBNZ's supervisory functions are aimed at encouraging the soundness and efficiency of the financial system as a whole, and are not aimed at preventing individual bank failures or at protecting creditors. The RBNZ seeks to achieve this by drawing on and enhancing disciplines that are naturally present in the market.

The RBNZ places considerable emphasis on a requirement that banks regularly disclose information on financial performance and risk positions, and on a requirement that directors regularly attest to certain key matters. These measures are intended to strengthen market disciplines and to ensure that responsibility for the prudent management of banks lies with those who the RBNZ considers are best placed to exercise that responsibility-the directors and management.

The main elements of the RBNZ's supervisory role include:

- requiring all banks to comply with certain minimum prudential requirements, which are applied through conditions of registration. These include constraints on connected exposures, minimum capital adequacy requirements and minimum standards for liquidity risk management, and are set out in more detail below;

- monitoring each registered bank's financial condition and compliance with conditions of registration, principally on the basis of published half-yearly disclosure statements and monthly reporting submitted privately to the RBNZ. This monitoring is intended to ensure that the RBNZ maintains familiarity with the financial condition of each bank and the banking system as a whole, and maintains a state of preparedness to invoke crisis management powers should this be necessary;

- consulting with the senior management of registered banks;

- using crisis management powers available to it under the Reserve Bank Act to intervene where a bank distress or failure situation threatens the soundness of the financial system;

- assessing whether a bank is carrying on business prudently;

- issuing guidelines on overseeing banks' compliance with anti-money laundering and countering financing of terrorism requirements;

- monitoring banks' outsourcing arrangements to determine whether a registered bank's 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.

The RBNZ publishes a quarterly "dashboard" of key information on New Zealand incorporated registered banks on the RBNZ's website. The dashboard aims to improve the ability of the public and market participants to understand and act on information about such banks' financial strength and risk profile. The information is sourced from private reporting that banks provide to the RBNZ. Information relating to the ANZ New Zealand Group published in the dashboard is not incorporated by reference herein and does not form part of this Offering Memorandum and, in some cases, information relating to the ANZ New Zealand Group published in the dashboard has not been prepared on a consistent basis with the information presented in the ANZ New Zealand Financial Statements.

New Zealand registered banks are required to comply with the Basel III capital adequacy requirements, as modified to reflect New Zealand conditions. The RBNZ also requires most New Zealand incorporated registered banks, including ANZ New Zealand, to maintain a conservation buffer of 2.5% above the minimum ratios or face restrictions on distributions. The RBNZ also has the discretion to apply a countercyclical buffer of common equity with an indicative range of between 0 and 2.5%, although there is no formal upper limit. There are also counterparty credit risk requirements and additional disclosure requirements to incorporate Basel III.

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

The RBNZ currently also requires all registered banks to obtain and maintain a credit rating from an approved organization and publish that rating in the disclosure statements.

In addition, the RBNZ has wide reaching powers to obtain further information, data and forecasts in connection with its supervisory functions, and to require that information, data, and forecasts be audited.

It also possesses a number of crisis management powers. Those powers include recommending that a bank's registration be cancelled, investigating the affairs of a registered bank, requiring that a registered bank consults with the RBNZ, giving directions to a registered bank, removing, replacing or appointing a director of a registered bank or recommending that a registered bank be subject to statutory management.

If a registered bank is declared to be subject to statutory management, no person may, among other things:

- commence or continue any action or other proceedings including proceedings by way of counterclaim against that bank;
- issue any execution, attach any debt, or otherwise enforce or seek to enforce any judgment or order obtained in respect of that bank;
- take any steps to put that bank into liquidation; or
- exercise any right of set off against that bank.

As part of the RBNZ's supervisory powers, a person must obtain the written consent of the RBNZ before giving effect to a transaction resulting in that person acquiring or increasing a "significant influence" over a registered bank. "Significant influence" means the ability to appoint 25% or more of the Board of Directors of a registered bank or a qualifying interest (e.g., legal or beneficial ownership) in 10% or more of its voting securities.

In assessing applications for consent to acquire a significant influence over a registered bank, the RBNZ has stated that it will have regard to the same matters as are relevant in assessing an application for registration as a registered bank. In giving its consent, the RBNZ may impose such terms and conditions as it thinks fit.

New Zealand Regulatory Developments

RBNZ review of capital requirements

Between May 2017 and December 2019, the RBNZ conducted a comprehensive review of the capital adequacy framework applying to New Zealand incorporated registered banks. The aim of the review was 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 focused 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.

The RBNZ announced its final decisions on the capital review on December 5, 2019. The RBNZ's final decisions include the following:

- The total capital requirement for New Zealand registered banks will increase to 18% of risk weighted assets ("RWA") for Domestic Systemically Important Banks ("D-SIBs") (including ANZ New Zealand), and 16% for other banks.
    - The total capital requirement must include Tier 1 capital of at least 16% of RWA for D-SIBs, and 14% for all other banks. Up to 2.5% can be made up of AT1 capital, with the remaining 13.5% made up of CET1 capital. AT1 capital must consist of redeemable perpetual preference shares.
    - The total capital requirement can also include Tier 2 capital of up to 2% of RWA. Tier 2 capital must consist of long-term subordinated debt.
- The Tier 1 capital requirement will include a CET1 Prudential Capital Buffer of 9% of RWA. This will include:
    - a 2% prudential capital buffer for D-SIBs;
    - a 1.5% 'early-set' counter-cyclical capital buffer, which can be temporarily reduced to 0% following a financial crisis, or temporarily increased to prevent asset price bubbles from developing; and
    - a 5.5% conservation buffer.
- Contingent capital instruments will no longer be treated as eligible regulatory capital. As at September 30, 2019, ANZ New Zealand had approximately NZ$2.7 billion of AT1 instruments that will progressively lose their eligible regulatory capital treatment over a seven year transition period. The RBNZ expects to define the process for the phasing out of these instruments in the first half of 2020.
- RWA outcomes for IRB-approach accredited banks (including ANZ New Zealand) will be increased to approximately 90% of what would be calculated under the Standardized approach. This will be achieved by applying an 85% output floor for IRB banks, and increasing their scalar from 1.06 to 1.2.
- IRB-approach accredited banks (including ANZ New Zealand) will be required to report RWA (and resulting capital ratios) using both internal models and the Standardized approach. For information about the IRB-approach, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Risk Weighted Exposures—Credit Risk".
- All banks will be required to calculate operational risk capital using the Standardized approach.

The RBNZ will consult on proposed amendments to the Banking Supervision Handbook to give effect to its decisions in the first half of 2020. The new regime is expected to be implemented in stages from July 1, 2020, with a transition period of seven years before banks are required to fully comply with the new rules.

The RBNZ's capital reforms will result in substantially higher capital requirements for New Zealand incorporated registered banks operating under the Standardized approach, and even higher capital requirements for New Zealand incorporated registered banks using IRB models (including ANZ New Zealand).

The increased capital requirements may result in changes to affected banks' business objectives and result in changes to competitive behavior across the New Zealand banking industry. For example, there may be increased competition between banks using the IRB approach and banks using the Standardized approach, and between those banks affected by the reforms and offshore banks operating in New Zealand via branches that are not affected by the reforms. The increased capital requirements may also affect the price and volume of bank credit made available to affected banks' customers. This may affect customers' business prospects or creditworthiness, as well as the performance of the New Zealand economy.

The RBNZ's reforms will result in a material increase in the level of capital that the ANZ New Zealand Group is required to hold, although the amount of the increase is currently uncertain. ANZ New Zealand's total capital as at September 30, 2019 was NZ$13,226 million. The reforms could have a material impact on the ANZ New Zealand Group and its business, including on its capital allocation and business planning. Additionally, the changes may require ANZ New Zealand's ultimate parent company, ANZBGL, to review and reconsider its size, nature and operations in New Zealand, including the total capital invested and business structure.

The key changes to the RBNZ's final capital requirements relative to the consultation paper are set out below:

- An extension of the transition period from five to seven years.

- No change in total Tier 1 capital required for the ANZ New Zealand Group of 16%.

- However a greater proportion can be AT1 capital (2.5% compared to the initial proposal of 1.5%), decreasing the amount of CET1 capital required.

- Redeemable perpetual preference shares will be allowable as AT1 capital. It is anticipated that the ANZ New Zealand Group will be able to refinance existing internal AT1 securities (issued to other entities within the ANZ Group) to external counterparties.

Any changes are expected to be implemented gradually, considering the market is competitive for lending. The ANZ New Zealand Group has begun preparing for the changes. Of the ANZ New Zealand Group's NZ$1.8 billion net profit after tax in for the year ended September 30, 2019, approximately 80% has been retained in response to the proposals.

RBNZ prudential credit controls

The RBNZ imposes restrictions on high LVR residential mortgage lending. The RBNZ revised the Conditions of Registration applying to registered banks with effect from January 1, 2019, requiring New Zealand banks to restrict new non property-investment residential mortgage lending over 80% LVR to no more than 20% of the dollar value of a bank's new non property-investment residential mortgage lending. New Zealand banks must also restrict property investment residential mortgage lending over 70% LVR to no more than 5% of the dollar value of a bank's new property investment residential mortgage lending.

RBNZ's revised outsourcing policy

BS11 requires large New Zealand banks, such as ANZ New Zealand, to have the legal and practical ability to control and execute outsourced functions. BS11 applies to all new outsourcing arrangements entered into from October 1, 2017. Existing outsourcing arrangements have until October 1, 2022, to transition to full compliance with BS11.

Condition of Registration 24

The BS11 requirements form part of ANZ New Zealand's Conditions of Registration. If ANZ New Zealand does not comply with Condition of Registration 24 in relation to outsourcing, the RBNZ could take enforcement action, such as imposing fines or putting further restrictions on ANZ New Zealand's use of outsourcing.

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

In order to be compliant with BS11, ANZ New Zealand must be able to meet the policy outcomes on a stand-alone basis without reliance on any other ANZ Group entity. The policy outcomes are defined as ANZ New Zealand being able to:

- continue to meet daily clearing, settlement, and other time-critical obligations;

- monitor and manage financial positions, including credit, liquidity and market risk positions;

- make available the systems and financial data necessary for the statutory manager and the RBNZ to have options available for managing the failed bank; and

- provide basic banking services to existing customers, including liquidity (both access to deposits and to credit lines as defined in basic banking services) and account activity reporting.

Compliance obligations

BS11 imposes a number of ongoing compliance requirements on ANZ New Zealand. In particular:

- ANZ New Zealand must have a compendium of outsourcing arrangements;

- all contracts to which BS11 applies must include prescribed contractual terms allowing the RBNZ access to details of the contract and service, and not allowing the vendor to terminate if ANZ New Zealand is under statutory management;

- the RBNZ must provide its non-objection for all new outsourcing arrangements (including with other ANZ Group entities), unless an exemption applies;

- ANZ New Zealand must have a separation plan that describes how it will operate services or functions that are outsourced to a related party in the event of the appointment of a statutory manager to ANZ

New Zealand, or separation from ANZBGL. A final separation plan, fully compliant with BS11, must be in place by October 1, 2022 and will be subject to annual testing; and

- ANZ New Zealand must obtain an independent, external review of progress against its Path-to-Compliance Plan and compliance of new arrangements on an annual basis during the five-year transition period and at least every three years thereafter.

Financial Markets (Derivatives Margin and Benchmarking) Reform Amendment Act 2019 ("FMRA Act")

The FMRA Act was enacted in August 2019, following industry consultation by the RBNZ and the New Zealand Ministry of Business, Innovation and Employment ("MBIE"), in co-ordination with the New Zealand Treasury, as well as engagement with overseas regulators.

Although New Zealand has no legislative margin requirements for over-the-counter ("OTC") derivatives, the OTC activities of several registered banks (including ANZ New Zealand) are impacted by margin rules being implemented in foreign jurisdictions. The FMRA Act addresses aspects of New Zealand law that impede the ability of certain New Zealand entities (including registered banks such as ANZ New Zealand) to comply with foreign derivative margin requirements (in particular, statutory moratoria on creditors' claims under insolvency or restructuring regimes, and the ranking of creditors in certain circumstances). These legislative impediments had resulted in a reduction of the number of counterparties with which ANZ New Zealand was able to enter into uncleared OTC derivative transactions.

The amendments made under the FMRA Act allow derivative counterparties, which enter into derivatives with these New Zealand entities, to enforce their security interest over margin without undue delay, and ahead of other creditors, in the event of the other party to the derivative defaulting (provided that, prior to enforcement, the margin is in the possession or under the control of the enforcing counterparty or its agent). More specifically, the amendments:

- allow these derivative counterparties to enforce against the margin notwithstanding the general moratoria on claims that ordinarily apply in statutory management and voluntary administration; and

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

The FMRA Act will also amend the Financial Markets Conduct Act 2013 ("FMCA") to establish a new licensing regime for administrators of financial benchmarks. New Zealand's previous regulatory regime for the Bank Bill Benchmark Rate ("BKBM") was judged as not sufficient to meet the equivalence requirements for the purposes of the Benchmarks Regulation. These amendments aim to ensure that BKBM meets the EU equivalence requirements and remains an approved benchmark.

Replacement of the Financial Advisers Act 2008

New Zealand's financial advice regime is being modified. The Financial Advisers Act 2008, which is the primary legislation governing the provision of financial advice in New Zealand, will be repealed by the Financial Services Legislation Amendment Act 2019 (the "FSLAA"). The FSLAA inserts the provisions of the new financial advice regime into the FMCA and amends the Financial Service Providers (Registration and Dispute Resolution) Act 2008 ("FSP Act"). The key changes to the regime include:

- requiring financial advice providers to be licensed;

- removing the requirement that only a natural person can give financial advice (enabling robo-advice);

- expanding the minimum standards of competence, knowledge, and skill to all categories of people giving financial advice to retail clients;

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

- adding a requirement that anyone who gives financial advice must give priority to the interests of the client, ensure the client understands the nature and scope of advice and disclose prescribed information;

- limiting who can give regulated financial advice;

- simplifying the regime and its terminology, for example by simplifying financial adviser types and services they can provide; and

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

Financial advice providers will be required to hold a transitional license when the new regime comes into force and a full license will be required within a two year transitional period. The new regime is expected to come into force on June 29, 2020.

Review of the Reserve Bank Act

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

The review is being undertaken in two phases:

- Phase one: Phase one of the review was completed in 2018, and resulted in the enactment of the Reserve Bank of New Zealand (Monetary Policy) Amendment Act 2018, which came into force on April 1, 2019. This Act made several changes to New Zealand's monetary policy framework, including establishing a MPC to formulate monetary policy, and amending the RBNZ's monetary policy objectives to require consideration of maximum sustainable employment alongside price stability when making monetary policy decisions.

- Phase two: This phase primarily involves a comprehensive review of the financial policy provisions of the Reserve Bank Act, including provisions that provide the legislative basis for the RBNZ's prudential regulation and supervision functions and its crisis management framework. This phase also considers institutional matters such as the RBNZ's legislative objectives, broader governance arrangements and its funding model. Phase two includes three rounds of public consultation.

The New Zealand Government released the first consultation paper on November 1, 2018, which covered the following topics: the RBNZ's overarching objectives; the 'perimeter' for prudential regulation; the case for and against depositor protection; the case for and against separating prudential supervision from the RBNZ; and the RBNZ's institutional governance and decision-making framework. In June 2019, the New Zealand Government announced its in-principle decisions in relation to the issues discussed in the first consultation paper. These include in-principle decisions to: keep the responsibility for all prudential regulation functions with the RBNZ; replace the RBNZ's existing "soundness" and "efficiency" financial policy objectives with a single overarching objective to "protect and enhance the stability of New Zealand's financial system"; establish a new governance board with statutory responsibility over all RBNZ decisions (except those reserved for the MPC); make the New Zealand Treasury responsible for monitoring and assessing the RBNZ's performance; combine the separate regulatory regimes for banks and non-bank deposit takers ("NBDTs") into a single "licensed deposit taker" framework; and introduce a formal depositor protection scheme that will protect depositors' savings up to an insured limit.

On June 24, 2019, the New Zealand Government released a second round of consultation, which was set out in two separate consultation papers (2A and 2B). Paper 2A sought feedback on more detailed elements of the issues covered in the first round of consultation, in light of the New Zealand Government's in-principle decisions (discussed above). Paper 2B sought feedback on the RBNZ's role in overseeing New Zealand's financial sector, and covered the following topics: the RBNZ's prudential tools and powers; the RBNZ's approach to supervision and enforcement of prudential regulation; the RBNZ's role in macro-prudential policy; how the RBNZ's balance sheet functions should be formulated; crisis management; policy coordination; and the RBNZ's resourcing and funding. The second round of consultation closed on August 16, 2019.

On December 18, 2019, the New Zealand Government announced its final decisions in relation to the governance and accountability arrangements for the RBNZ, including:

- establishing a governance board that will be responsible for the functions of the RBNZ (except those undertaken by the MPC);

- introducing an overarching financial stability objective of "protecting and promoting the stability of New Zealand's financial system";

- enhancing the RBNZ's accountability through greater alignment of reporting and monitoring requirements with state sector practice;

- making the New Zealand Treasury the external monitor of the RBNZ; and

- reinforcing coordination and cooperation among regulatory agencies by creating a legislative mandate for the Council of Financial Regulators.

The Government also announced further in-principle decisions relating to the regulation of deposit takers and the introduction of a deposit insurance scheme, including:

- setting a deposit insurance limit of $50,000 per depositor, per institution;
- making NBDTs and banks subject to a single prudential regulatory regime;
- strengthening accountability requirements on directors of deposit takers;
- strengthening the RBNZ's supervision and enforcement tools, including with powers to undertake on-site inspections as part of its supervision activities; and
- clarifying and strengthening the RBNZ's crisis resolution framework, including providing the RBNZ with the ability to "bail-in" (that is, write-down or convert to equity) certain unsecured liabilities as a new mechanism for recapitalising a failing bank.

The Government intends to replace the Reserve Bank Act with two separate pieces of legislation – the "Institutional Act" and the "Deposit Takers Act" – which will implement the decisions from this review. The Institutional Act will set out the overall governance and accountability framework for the RBNZ across all its functions. It will also provide for the RBNZ's central banking functions, including the framework for monetary policy. The Deposit Takers Act will integrate the two different legislative frameworks for deposit taking institutions (banks and NBDTs) and establish the deposit insurance scheme.

The Government intends to introduce a Bill for the Institutional Act into the New Zealand Parliament in mid-2020. A further round of public consultation will be undertaken on the Deposit Takers Act and the deposit insurance scheme in the first quarter of 2020. This will include consultation on depositor preference. If depositor preference is introduced, preferred depositors' claims will be given priority above the claims of other unsecured creditors in the event of the failure of a deposit taker.

The Government plans to make final policy decisions on the Deposit Takers Act and deposit insurance scheme in mid-2020, and to progress legislation after that.

RBNZ review of mortgage bond collateral standards

The RBNZ is consulting on the terms under which the RBNZ would be prepared to accept mortgage bonds (such as residential mortgage-backed securities or covered bonds) as collateral for the RBNZ's lending operations in the future, and is proposing a new RMO standard. The RBNZ proposes to gradually phase in RMO to replace internal residential mortgage backed securities over a five-year transition period.

In November 2018, the RBNZ published an exposure draft of the RMO standard for a second and final round of public consultation, which closed on March 8, 2019. The RBNZ intends to publish a final policy defining the RMO framework once the final decisions are made.

FMA and RBNZ conduct and culture review

Following the establishment of the Australian Royal Commission, the FMA and the RBNZ conducted a joint review of conduct and culture in the New Zealand banking sector. In May 2018, the FMA and the RBNZ asked New Zealand banks to provide them with specific information to give assurance that the type of misconduct highlighted in the Australian Royal Commission was not taking place in New Zealand. Each New Zealand bank was asked to provide a summary of work it had undertaken, both completed and ongoing, to identify and address conduct and culture issues in its business. The FMA and the RBNZ also conducted onsite interviews.

In November 2018, the FMA and the RBNZ released the findings of their industry review. The industry report found that conduct and culture issues did not appear to be widespread in New Zealand banks. There were a small number of issues related to poor conduct by bank staff across the industry. Issues relating to system or process weaknesses were more commonplace. The industry report noted that the FMA and the RBNZ were concerned about the identification and remediation of conduct issues and risks in the banks' businesses, and potential weaknesses in the governance and management of conduct risks.

Each bank that took part in the review, including ANZ New Zealand, received a tailored report detailing the FMA's and the RBNZ's observations and recommendations. Each bank was required to provide a response to their specific reports and their plans to address the FMA's and the RBNZ's feedback by March 31, 2019. ANZ New Zealand received its specific report in November 2018 and submitted its response on March 29, 2019.

On July 5, 2019, the FMA and the RBNZ provided ANZ New Zealand with their specific feedback letter. In their letter, the FMA and the RBNZ noted that ANZ New Zealand's conduct and culture plan appeared to address the relevant issues identified in the feedback letters and published reports. In addition, the FMA and the RBNZ informed ANZ New Zealand that the outcomes of the Section 95 Reviews may result in ANZ New Zealand needing to amend its conduct and culture plan. See "Overview—Recent Developments— Section 95 Reviews" for further information.

On October 31, 2019, ANZ New Zealand provided a formal progress update on its conduct and culture plan to the FMA and the RBNZ. ANZ New Zealand is required to submit a further progress report by the end of April 2020.

***RBNZ's** approach to supervision of financial institutions*

In June 2019, the RBNZ announced that it would intensify its supervision of financial institutions (including ANZ New Zealand). The RBNZ indicated that financial institutions could expect more intrusive supervision, including more reviews, a deeper scrutiny of boards and management, and enforcement action in cases of non-compliance.

A new framework for the reporting and publishing of regulatory breaches by banks was announced by the RBNZ in September 2019. The new policy will require a bank to report promptly to the RBNZ when there is a breach or possible breach of a regulatory requirement in a material manner, and report all minor breaches every six months. Actual material breaches will then be published on the RBNZ's website. The policy is planned to take effect from April 1, 2020.

FMA review of sales incentives structures in the New Zealand banking industry

In November 2018, the FMA released its findings from its review of incentive structures in the New Zealand banking industry. The purpose of this review was for the FMA to understand and assess the design of banks' incentives schemes for salespeople, and how related conflicts of interest are managed.

The industry review found that the incentives of salespeople across the New Zealand banking industry are highly sales focused and that there is a high risk of inappropriate sales practices occurring. The industry review also found that significant changes are being made to incentive schemes across the New Zealand banking industry. The FMA states in its findings that it expects banks to ensure they achieve consistently good outcomes for their customers and that this includes designing and managing incentive schemes in a way that leads to good customer outcomes. The FMA asked banks to explain how they would meet the FMA's expectations by March 2019. ANZ New Zealand submitted its response to the FMA on March 29, 2019.

In June 2019, the FMA and the RBNZ announced that all New Zealand banks, including ANZ New Zealand, had committed to removing sales incentives for frontline staff and their managers. From October 1, 2019, ANZ New Zealand removed sales incentives for all frontline staff and made changes to its remuneration structure to reduce the emphasis on variable remuneration and individual performance. Frontline Retail and Business Banking staff do not have incentives paid based on individual performance (including payments based on sales measures). Instead staff are eligible for a payment based on overall ANZ Group performance. Some staff will be eligible for variable remuneration which will include a component based on overall ANZ Group performance and a component based on individual performance. For any roles with an individual performance component, ANZ New Zealand is committed to ensuring that there are no incentives linked to sales measures.

On July 5, 2019, the FMA and the RBNZ, in their feedback letter to ANZ New Zealand on its conduct and culture plan, noted the requirement for ANZ New Zealand to notify the FMA, in writing, if ANZ New Zealand intends to materially change its approach to incentives outlined in ANZ New Zealand's conduct and culture plan.

Proposed conduct regulations for financial institutions

Following the FMA and RBNZ's conduct and culture review, MBIE consulted on a proposed conduct licensing regime to ensure that conduct and culture in the New Zealand financial sector is delivering good outcomes for customers.

The Financial Markets (Conduct of Institutions) Amendment Bill ("FMCIA Bill") was introduced to the New Zealand Parliament on December 11, 2019. If enacted in its current form, the FMCIA Bill would require financial institutions (including registered banks, licensed insurers and non-bank deposit takers) that are in the business of providing relevant services to:

- obtain a license under Part 6 of the FMCA;
- comply with a fair conduct principle to treat consumers fairly, including by paying due regard to their interests; and
- establish, implement, maintain and comply with an effective fair conduct program to operationalize the fair conduct principle.

Licensed entities would also be required to comply with regulations that regulate incentives. These regulations will be able to prohibit incentives based on volume or value sales targets.

The FMCIA Bill would also make licensed entities accountable for sales made by intermediaries who are not financial institutions or financial advice providers, and for ensuring these intermediaries comply with the conduct program.

Financial institutions and intermediaries would be subject to the FMCA's compliance and enforcement tools such as civil pecuniary penalties for contraventions of various obligations, and licensed financial institutions would be subject to licensing actions such as censure and the imposition of action plans.

These proposals are intended to form the basis of a broad conduct regime that could be expanded over time with further obligations on regulated entities.

Amendments to the Credit Contracts and Consumer Finance Act 2003

Following MBIE's review of the New Zealand consumer credit law in 2018, the New Zealand Government announced in October 2018 that it intended to make amendments to the CCCFA to better protect vulnerable consumers from irresponsible lending.

In December 2019, the Credit Contracts Legislation Amendment Act 2019 ("CCLA Act") was enacted. The CCLA Act makes a number of significant changes to the CCCFA, including:

- introducing a new duty on directors and senior managers of creditors under consumer credit contracts to exercise due diligence to ensure that the creditor complies with its duties and obligations under the CCCFA. Proposed remedies for failure to comply with this duty include compliance orders, civil pecuniary penalties, statutory damages and payment of compensation;

- strengthening enforcement provisions, including by providing civil pecuniary penalties and statutory damages for breaches of lender responsibility principles;

- requiring lenders to keep records of their inquiries in relation to their compliance with the responsible lending principles and how they calculate credit and default fees;

- amending the provisions relating to how disclosure is made, including in relation to electronic disclosure; and

- requiring debt collectors to disclose key information to the debtor at the commencement of debt collection action.

Certain amendments contained in the CCLA Act (including changes to electronic disclosure rules and the introduction of civil pecuniary penalties) have already come into effect. Other amendments (including the introduction of rules relating to high-cost consumer credit contracts) will come into force on June 1, 2020, with the rest of the amendments coming into force no later than April 1, 2021.

*Thematic Review of registered **banks'** compliance with the RBNZ Liquidity Policy*

The RBNZ is undertaking a thematic review of compliance with BS13. The review is expected to deliver an assessment of the compliance of registered banks in New Zealand with the quantitative and qualitative requirements of BS13 as well as provide useful insights into the banking industry's current liquidity management practices. The findings from the thematic review are also intended to provide input into a forthcoming review of BS13. ANZ New Zealand is continuing to work with the RBNZ and the review is expected to be completed later in 2020.

Restrictions on **ANZBGL's** ability to provide financial support

*Effect of **APRA's** Prudential Standards*

The ANZ Group is subject to extensive prudential regulation by APRA. APRA's current or future requirements may have an adverse effect on the ANZ New Zealand Group's Position.

APS222 sets minimum requirements for ADIs in Australia, including ANZBGL, in relation to the monitoring, management and control of risks which arise from associations with related entities and also includes maximum limits on intra-group financial exposures.

Under APS222, ANZBGL's ability to provide financial support to the ANZ New Zealand Group is subject to the following restrictions:

- ANZBGL should not undertake any third party dealings with the prime purpose of supporting the business of the ANZ New Zealand Group;

- ANZBGL must not hold unlimited exposures (i.e., should be limited as to specified time or amount) to the ANZ New Zealand Group (e.g., not provide a general guarantee covering any of the ANZ New

Zealand Group's obligations) either in aggregate or at an individual entity level;

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

- the level of exposure, net of exposures deducted from capital, of ANZBGL's Level 1 total capital base to the ANZ New Zealand Group should not exceed:

  - 50% on an individual exposure basis; or

  - 150% in aggregate to all related ADIs or equivalents.

In August 2019, APRA released an update to APS222, which is to be effective from January 1, 2021. Changes that affect the quantum and nature of the financial support that ANZBGL can provide to the ANZ New Zealand Group are:

(i) change the Level 1 capital base used for setting the exposure limits from total capital to Tier 1 capital; and

(ii) reduce the Australian ADIs' individual entity exposure to related ADIs (or overseas equivalents such as ANZ New Zealand) from 50% of Level 1 total capital to 25% of its Level 1 Tier 1 capital base, and the aggregate exposures from 150% of Level 1 total capital to 75% of its Level 1 Tier 1 capital base.

APRA may provide for entity-specific transitional arrangements or flexibility on a case-by-case basis.

Further, in October 2019, APRA released a discussion paper on draft revisions to APS111, which proposes to change the Level 1 capital treatment for Australian ADIs, such as ANZBGL, investing in ADIs (or overseas equivalents such as ANZ New Zealand) and insurance subsidiaries. The proposed changes, set for implementation from January 1, 2021, would result in:

(i) the initial investment, up to an amount equal to 10% of ANZBGL's net Level 1 CET1 capital base, being risk-weighted at 250%; and

(ii) the remainder of the investment being treated as a CET1 capital deduction.

If implemented, these APS111 changes would reduce ANZBGL's Level 1 Tier 1 capital base and exposure to the ANZ New Zealand Group for the purposes of APS222 reporting. As a result, ANZBGL's expected exposure to the ANZ New Zealand Group at January 1, 2021 would be compliant with the revised APS222 limits.

However, if the APS111 changes are not implemented and the APS222 changes become effective, it is still possible that the changes outlined in APRA's announcement in connection with APS222 could adversely impact the ANZ New Zealand Group's Position, its credit ratings and its ability to grow its business as ANZBGL's exposure to ANZ New Zealand would be near the limit of 25% of Level 1 Tier 1 capital, although ANZBGL would be able to apply for transition relief.

In addition, APRA has confirmed that by January 1, 2021, no more than 5% of ANZBGL's Level 1 Tier 1 capital base can comprise non-equity exposures to its New Zealand operations (including its subsidiaries incorporated in New Zealand, such as ANZ New Zealand, and ANZBGL's New Zealand branch) during ordinary times. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to the ANZ New Zealand Group during times of financial stress.

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 September 30, 2019, the New Zealand branch held approximately NZ$739 million of residential mortgages.

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

Effect of the Level 3 framework

In addition, certain requirements of APRA's Level 3 framework relating to, among other things, group governance and risk exposures became effective on July 1, 2017. This framework also requires the ANZ Group to limit its financial and operational exposures to subsidiaries (including the ANZ New Zealand Group).

In determining the acceptable level of exposure to a subsidiary, the Board of ANZBGL should have regard to:

- the exposures that would be approved for third parties of broadly equivalent credit status; and
- the potential impact on ANZBGL's capital and liquidity positions and ability to continue operating in the event of a failure by the ANZ New Zealand Group.

These requirements are not expected to place additional restrictions on ANZBGL's ability to provide financial or operational support to the ANZ New Zealand Group.

Other APRA powers

ANZBGL may not provide financial support in breach of the Australian Banking Act 1959 (the "Banking Act"). Under the Banking Act:

- APRA must exercise its powers and functions for the protection of a bank's depositors in Australia and for the promotion of financial system stability in Australia; and
- in the event of a bank becoming unable to meet its obligations or suspending payment, the assets of the bank in Australia will be available to meet that bank's deposit liabilities in Australia in priority to all other liabilities of the bank.

The requirements of the Banking Act and the exercise by APRA of its powers have the potential to impact the management of the ANZ New Zealand Group's liquidity.

Australian Banking Executive Accountability Regime **("BEAR")**

The Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018 of the Commonwealth of Australia established the BEAR. ANZBGL's obligations under the BEAR commenced on July 1, 2018.

The BEAR aims to strengthen the responsibility and accountability framework for the most senior and influential directors and executives in ADI groups which, in the case of ANZBGL, currently includes certain members of ANZBGL's executive committee (including ANZBGL's CEO) and the CEO of ANZ New Zealand.

Under the BEAR:

- ANZBGL is required to register individuals with APRA before appointing them to certain senior executive or director positions and maintain and provide APRA with a map of the roles and responsibilities of such persons across the ADI group, and to provide APRA with accountability statements for each of these senior executives or directors, detailing that individual's roles and responsibilities;
- where ANZBGL and its registered senior executives and directors do not meet accountability obligations, APRA is empowered to disqualify those individuals as senior executives or directors without a court order (but subject to a right of administrative review in accordance with Part VI of the Banking Act);
- ANZBGL is obliged to set remuneration policies for directors and senior executives consistent with BEAR's requirements, including for the deferral of certain components of that remuneration; and
- ANZBGL may be liable for substantial penalties for failing to comply with its BEAR obligations.

There is potential for the obligations of ANZBGL's and ANZ New Zealand's accountable persons under the BEAR to conflict with certain New Zealand regulatory requirements.

Australian Crisis Management

The Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018 of the Commonwealth of Australia (the "Crisis Management Act") 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 and 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.

***APRA's** decision on loss-absorbing capacity requirements*

Further to the release by APRA of a discussion paper titled "Increasing the loss-absorbing capacity of ADIs to support orderly resolution" in November 2018, in July 2019, APRA announced its decision on loss-absorbing capacity pursuant to which it will require Australian D-SIBs, including ANZBGL, to increase their total capital by 3% of RWA by January 2024.

Based on the ANZ Group's capital position as at September 30, 2019, this represents an incremental increase in the total capital requirement of approximately A$12 billion, with an equivalent decrease in other senior funding.

APRA has stated that it anticipates that Australian D-SIBs would satisfy the requirement predominantly with additional Tier 2 capital. APRA is considering, over the next four years, alternative methods for raising subordinated capital equivalent to an additional 1% to 2% of RWA.

It is uncertain what impact this change may have on the ANZ New Zealand Group.

Dodd-Frank Act

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, although ongoing developments and monitoring of required compliance programs may require the expenditure of resources and management attention. While the Commodity Futures Trading Commission ("CFTC") has finalized and adopted most of its regulations under the Dodd-Frank Act governing swap dealers and swap transactions, certain of the regulations remain to be finalized and the CFTC continues to modify its regulations in certain respects. In particular, in December, 2019, the CFTC proposed rules regarding the cross-border application of its regulatory regime to non-U.S. swap dealers, as discussed below.

The "Volcker Rule" adopted under the Dodd-Frank Act, among other things, prohibits banks and their affiliates from engaging in certain "proprietary trading" (but allows certain activities such as underwriting, market making-related and risk-mitigating hedging activities) and limits the sponsorship of, and investment in, private equity funds and hedge funds, subject to certain important exceptions and exemptions. Between August and October 2019, the agencies responsible for the Volcker Rule approved final rules (the "Final Rules") amending the Volcker Rule to provide clarification, simplification and tailoring to certain of their requirements relating to proprietary trading, investments in covered funds and compliance programs. The effective date for the Final Rules is January 1, 2020, with a compliance date of January 1, 2021. Banking entities such as the ANZ Group, including ANZ New Zealand (as its subsidiary), must continue to comply with the existing (2013) Volcker Rule until the effective date. Compliance with the Final Rules between the effective date and the compliance date is permitted but not required.

Other Dodd-Frank Act regulations impose minimum margin requirements on uncleared swaps, require the central execution and clearing of standardized OTC derivatives on regulated trading platforms and clearing houses and provide for heightened supervision of OTC derivatives dealers and major market participants. ANZBGL is a provisionally registered swap dealer under the CFTC regulations and is subject to CFTC swap dealer requirements including business conduct and record keeping and reporting rules that apply to ANZBGL's swap transactions with counterparties that are either (i) U.S. persons or (ii) non-U.S. persons guaranteed by or affiliate conduit of a U.S. person. Neither ANZ New Zealand nor ANZNIL are registered swap dealers or major swap participants under the CFTC regulations. Additionally, ANZNIL does not transact derivatives.

The CFTC has issued Cross-Border Guidance which, among other things, 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 outside the U.S. with non-U.S. counterparties. As noted, the CFTC issued proposed rules in December, 2019 that would supersede the Cross-Border Guidance and would, among other things, provide for expanded reliance on substituted compliance by non-U.S. swap dealers and would limit the applicability of CFTC regulations to non-U.S. transactions in other respects. Whether the proposed rules will be adopted, as well as the timing of any such adoption and the content of any final rules, remains unclear.

U.S. prudential regulators and the CFTC have implemented rules imposing initial and variation margin requirements on transactions in uncleared swaps and security-based swaps. As ANZBGL is supervised by the Board of Governors of the Federal Reserve System ("FRB") and operates the New York Branch that is regulated by the Office of the Comptroller of the Currency (the "OCC"), it needs to comply with the uncleared swap margin rules promulgated by the FRB, Farm Credit Administration, FDIC, Federal Housing Financial Agency and the OCC.

These rules impose requirements to collect and post initial and variation margin in respect of in-scope trading with in-scope counterparties. Initial margin requirements are being phased in until September 2021.

The Dodd-Frank Act also requires ANZBGL to submit U.S. resolution plans to the FRB and the FDIC. ANZBGL submitted its most recent U.S. resolution plan in December 2018. ANZBGL also is subject to "enhanced prudential regulations" under Reg. YY, Subpart N, which was adopted pursuant to Section 165 of the Dodd-Frank Act, and which requires quarterly and annual certification of compliance with the financial and risk oversight requirements thereof. In October 2019, the FRB and the FDIC issued final rules that would apply tailored requirements on resolution planning and a modification of the enhanced prudential standards applicable to foreign banking organizations, depending on the size of their U.S. operations and their risk profile. Under the final rules, ANZBGL is projected to be a triennial reduced filer, and thus is required only to submit a reduced resolution plan if it continues to be a triennial reduced filer on October 1, 2020.

FATCA

FATCA requires FIs to undertake specific customer due diligence and provide information on account holders who are U.S. citizens or tax residents to the U.S. Federal tax authority, the Internal Revenue Services (**"IRS"**), either directly or via local tax authorities. If the required customer due diligence and provision of account holder information is not undertaken and provided in a manner and form meeting the applicable requirements, the ANZ New Zealand Group and/or persons owning assets in accounts with ANZ New Zealand Group members may be subjected to a 30% withholding tax on certain amounts. While such withholding tax may currently apply only to certain payments derived from sources within the United States, no such withholding tax will be imposed on any payments derived from sources outside the United States that are made prior to the date that is two years after the date on which final U.S. regulations defining the term "foreign passthru payment" are enacted. There is currently no proposed or final definition of "foreign passthru payment" and it is therefore impossible to know whether certain payments could possibly be treated as foreign passthru payments.

The discussion above reflects recently proposed U.S. regulations that eliminate withholding on certain gross proceeds payments and delay the effective date for withholding on payments from sources outside the United States. The U.S. Treasury Department has indicated that taxpayers may rely on the proposed regulations. The discussion assumes that the regulations will be finalized in their current form and will be effective retroactively.

In addition to FATCA, the U.S. may require the ANZ New Zealand Group in certain circumstances to provide certain information to U.S. payers (withholding agents, custodians, etc.), and the ANZ New Zealand Group and/or its customers may face withholding tax if the ANZ New Zealand Group does not provide such information in compliance with the applicable rules and regulations. Moreover, even if the ANZ New Zealand Group does provide the required information, withholding may still be applicable to certain U.S. source payments.

In the case of New Zealand institutions and branches, such information is to be furnished to the Inland Revenue Department ("IRD"), which would then forward the information to the IRS pursuant to an IGA between the United States and New Zealand.

The ANZ Group (including the ANZ New Zealand Group) has made and is expected to make significant investments in order to comply with FATCA and its reporting requirements. New Zealand has enacted legislation to implement the IGA with the United States.

It is possible that ANZ New Zealand and/or ANZNIL may become subject to U.S. withholding taxes under FATCA. 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 requires certain FIs to report information regarding certain accounts (which may include the Notes) to their local tax authority and follow related account opening information collection and due diligence procedures. Holders of Notes may be requested to provide certain information and certifications to ensure compliance with the CRS. A jurisdiction that has signed a CRS Competent Authority and relevant Information Exchange Agreement may provide this information to other participating jurisdictions. The New Zealand Government has enacted legislation to give effect to the CRS.

New Zealand FIs that do not fully comply with the CRS may be subject to administrative penalties. See "Risk Factors—Risks relating to the ANZ New Zealand Group's business—Increasing compliance costs, the risk of heightened penalties and ongoing regulatory scrutiny with respect to the significant obligations imposed by global tax reporting regimes (which are still evolving) may adversely affect the ANZ New Zealand Group's Position" in this Offering Memorandum for more information.

Conditions of Registration for ANZ Bank New Zealand Limited

These conditions apply on and after June 30, 2019. For the purposes of this section references to "$" are to New Zealand dollars.

For information regarding the changes made to these conditions since September 30, 2018, see "Recent Developments—Calculation of capital adequacy", "Overview—Recent Developments—New Zealand Regulatory Developments—RBNZ prudential credit controls" and "Overview—Recent Developments—Non-compliance with Conditions of Registration" and "Overview—Recent Developments—Section 95 Reviews" below.

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

1. That—
   (a) the Total capital ratio of the banking group is not less than 8%;

   (b) the Tier 1 capital ratio of the banking group is not less than 6%;

   (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;

   (d) the Total capital of the banking group is not less than $30 million;

   (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after January 1, 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and

   (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

   For the purposes of this condition of registration,—

   "supervisory adjustment" referred to in Part 3 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is calculated as the scalar times the sum of:

   (a) the greater of:

      i. 27.66 percent of the exposure-at-default (EAD) amount of non-defaulted standard residential mortgage loans less the risk weighted asset amount (without scalar) calculated using the bank's approved IRB models for non-defaulted standard residential mortgage loans; and
      ii. zero;

      and

   (b) the greater of:

      i. 75.47 percent of the exposure-at-default (EAD) amount of non-defaulted corporate farm lending exposures less the risk weighted asset amount (without scalar) calculated using the bank's approved IRB models for non-defaulted corporate farm lending exposures; and
      ii. zero;

   "standard residential mortgage loan" has the same meaning as in 4.7(a) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B), dated November 2015;

   "corporate farm lending exposures" has the same meaning as in 4.4(c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

   the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 and elsewhere in this condition of registration is 1.06;

   "Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015, except that in the formulae for calculating the ratios, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

"Total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

a Tier 2 capital instrument is an instrument that meets the requirements of subsection 2.16(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

1A. That—

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

(b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015; and

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

1B. That the bank complies with the minimum requirements set out in the following sections of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015:

(a) the model approval requirements in section 1.3A;

(b) the compendium requirements in section 1.3B;

(c) the minimum requirements for the IRB approach in sections 4.217 to 4.324 (that is, Subpart 4C of BS2B); and

(d) the minimum qualitative requirements for using the Advanced Measurement Approach ("AMA") for operational risk set out in section 8.4(a) and sections 8.5 to 8.14.

1C. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:

(a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

Banking **group's** buffer ratio	Percentage limit to distributions of the **bank's** earnings
0% – 0.625%	0%
>0.625 – 1.25%	20%
>1.25 – 1.875%	40%
>1.875 – 2.5%	60%

(b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and

(c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration,—

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015, except that in the formula for calculating the buffer ratio, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06.

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

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

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

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

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

In determining the total amount of the banking group's insurance business—

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

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

For the purposes of this condition of registration,—

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

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

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

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

(1) This table uses the rating scales of S&P, Fitch and Moody's. (Fitch's scale is identical to S&P.)

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the banking group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated November 2015.

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

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

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

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

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

   (d) an alternate director,—

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

      (ii) for an independent director must be independent;

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

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

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

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

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

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

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

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

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

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

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

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

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

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

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

This condition ceases to apply in respect of an existing outsourcing arrangement on the earlier of either 1 October 2022 or when the existing outsourcing arrangement becomes compliant with condition 24, from which point in time condition 24 will apply to that outsourcing arrangement.

For the purposes of this condition of registration:

(a) the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006; and

(b) the term "existing outsourcing arrangement" is defined in the Reserve Bank of New Zealand document entitled "Outsourcing Policy (BS11)" dated September 2017.

12. That:

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

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

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

13. That the banking group complies with the following quantitative requirements for liquidity-risk management:

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

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

(c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated January 2018 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated October 2018.

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

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

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

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

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

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

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

"SPV" means a person—

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

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

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

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

16. That—

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

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

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

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

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

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

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

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

17. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—

(a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—

(i) all liabilities are frozen in full; and

(ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;

(b) apply a *de minimis* to relevant customer liability accounts;

(c) apply a partial freeze to the customer liability account balances;

(d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;

(e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and

(f) reinstate customers' access to some or all of their residual frozen funds.

For the purposes of this condition of registration, "*de minimis*", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

18. That the bank has an Implementation Plan that—

    (a) is up-to-date; and

    (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS17) dated September 2013.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

19. That the bank has a compendium of liabilities that—

    (a) at the product-class level lists all liabilities, indicating which are—

        (i) pre-positioned for Open Bank Resolution; and

        (ii) not pre-positioned for Open Bank Resolution;

    (b) is agreed to by the Reserve Bank; and

    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

    For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

20. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

21. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

22. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non-property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non-property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

23. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

24. That the bank must comply with the Reserve Bank of New Zealand document "Outsourcing Policy" (BS11) dated September 2017.

In these conditions of registration,—

"banking group" means ANZ Bank New Zealand Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 21 to 23,—

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non-property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2019:
"loan-to-valuation measurement period" means—

(a) the three calendar month period ending on the last day of March 2019; and

(b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of April 2019.

Non-compliance with Conditions of Registration

See "Overview—Recent Developments—Non-compliance with Conditions of Registration."

Section 95 Reviews

See "Overview—Recent Developments—Section 95 Reviews."

ANZNIL

ANZNIL is not a registered bank, and so is not directly subject to the Conditions of Registration imposed by the RBNZ, nor is it directly regulated by the RBNZ under the Reserve Bank Act. However, it is part of the banking group for purposes of ANZ New Zealand's registration.

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

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

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

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

Overview

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

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

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

Critical accounting policies under NZ IFRS

Basis of preparation

The ANZ New Zealand Financial Statements are prepared in accordance with the New Zealand Financial Markets Conduct Act 2013. In addition, the ultimate parent company, ANZBGL, defines accounting policy for the ANZ Group. However, notwithstanding the existence of relevant accounting standards, there are a number of critical accounting treatments, which include complex or subjective decisions or assessments. All material changes to accounting policy are approved by ANZ New Zealand's Audit Committee and ANZBGL's Audit Committee. A brief discussion of critical accounting policies applicable as at September 30, 2019, and September 30, 2018, and their impact on ANZ New Zealand follows.

See Note 1 to the 2019 ANZ New Zealand Financial Statements and the 2018 ANZ New Zealand Financial Statements (included as part of Annex A to this Offering Memorandum) for the critical accounting policies under NZ IFRS as at September 30, 2019 and September 30, 2018.

Accounting standards adopted

During the financial year ended September 30, 2019, ANZ New Zealand adopted two new accounting standards, NZ IFRS 9 *Financial Instruments* ("NZ IFRS 9") and NZ IFRS 15 *Revenue from Contracts with Customers* ("NZ IFRS 15").

<u>NZ IFRS 9</u>

NZ IFRS 9 was effective for ANZ New Zealand from October 1, 2018. NZ IFRS 9 stipulates new requirements for the impairment of financial assets, classification and measurement of financial assets and financial liabilities and general hedge accounting. Details of the key requirements and estimated impacts on ANZ New Zealand are outlined below.

Impairment

NZ IFRS 9 replaced the incurred loss impairment model under NZ IAS 39: *Financial Instruments: Recognition and Measurement* ("NZ IAS 39") with an expected credit loss ("ECL") model incorporating forward looking information. The ECL model has been applied to all financial assets measured at amortized cost, debt instruments measured at fair value through other comprehensive income, lease receivables, certain loan commitments and financial guarantees. Under the ECL model, the following three-stage approach is applied to measuring ECL based on credit migration between the stages since origination:

- Stage 1: At the origination of a financial asset, a provision equivalent to 12 months ECL is recognized.
- Stage 2: Where there has been a significant increase in credit risk since origination, a provision equivalent to lifetime ECL is recognized.
- Stage 3: Similar to the previous NZ IAS 39 requirements for individual impairment provisions, lifetime ECL is recognized for loans where there is objective evidence of impairment.

Expected credit losses are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Classification and measurement

There are three measurement classifications under NZ IFRS 9: Amortized cost, Fair Value through Profit or Loss and Fair Value through Other Comprehensive Income. Financial assets are classified into these measurement classifications taking into account the business model within which they are managed, and their contractual cash flow characteristics.

The classification and measurement requirements for financial liabilities under NZ IFRS 9 are largely consistent with NZ IAS 39 with the exception that for financial liabilities designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income. This part of the standard was early adopted by the ANZ New Zealand Group on October 1, 2013.

General hedge accounting

NZ IFRS 9 introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging financial and non-financial risks.

NZ IFRS 9 provides the ANZ New Zealand Group with an accounting policy choice to continue to apply the NZ IAS 39 hedge accounting requirements until the IASB's ongoing project on macro hedge accounting is completed. The ANZ New Zealand Group has continued to apply the hedge accounting requirements of NZ IAS 39.

Transition to NZ IFRS 9

Other than as noted above under classification and measurement of financial liabilities, NZ IFRS 9 had a date of initial application for the ANZ New Zealand Group of October 1, 2018. The classification and measurement, and impairment requirements, are applied retrospectively by adjusting opening retained earnings at October 1, 2018. The ANZ New Zealand Group has not restated comparatives.

Impact

Impairment

The application of NZ IFRS 9 as at October 1, 2018 resulted in higher aggregate impairment provisions of approximately NZ$72 million, with an associated decrease in deferred tax liabilities of approximately NZ$20 million. The net impact on total equity is a reduction of approximately NZ$52 million.

Classification and measurement of financial assets

There have been no changes in classification and measurement as a result of the application of the business model and contractual cash flow characteristics tests.

<u>NZ IFRS 15</u>

NZ IFRS 15 was effective for the ANZ New Zealand Group from October 1, 2018 and replaced existing guidance on the recognition of revenue from contracts with customers. The standard requires identification of distinct performance obligations within a contract, and allocation of the transaction price of the contract to those performance obligations. Revenue is then recognized as each performance obligation is satisfied. The standard also provides guidance on whether an entity is acting as a principal or an agent which impacts the presentation of revenue on a gross or net basis.

The ANZ New Zealand Group has assessed all revenue streams existing at the date of transition to the new standard and determined that the impact of NZ IFRS 15 is immaterial given the majority of ANZ New Zealand revenues are outside the scope of the standard. The ANZ New Zealand Group has restated its results for the financial year ended September 30, 2018 to reflect the impact of NZ IFRS 15, however, those restatements affected the sub-categories of other operating income, and there were no changes to the total amount of other operating income for the financial year ended September 30, 2018.

The consolidated results and segment results for the financial years ended September 30, 2018, September 30, 2017 and September 30, 2016 have not been restated for the impact of NZ IFRS 15. The consolidated results and segment results for the financial years ended September 30, 2018, September 30, 2017 and September 30, 2016 can be compared on a consistent basis.

Derivatives and hedging

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

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

Judgment is required in selecting and designating hedging relationships and assessing hedge effectiveness. NZ IFRS 9 does not specify a single method for assessing hedge effectiveness prospectively or retrospectively. The ANZ New Zealand Group adopts the hypothetical derivative approach to determine hedge effectiveness in line with current risk management strategies. Hedge ineffectiveness can arise for a number of reasons and whilst a hedge may pass the effectiveness tests above it may not be perfectly effective, leaving some volatility in the income statement.

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

Goodwill

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

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

The recoverable amount is based on value-in-use calculations. These calculations use cash flow projections based on a number of financial budgets within each segment approved by management covering a three year period. Cash flow projections are based on a range of readily available economic assumptions including GDP and CPI. Cash flows beyond the three year period are extrapolated using a 2% growth rate.

These cash flow projections are discounted using a capital asset pricing model. As at February 28, 2019, when the last valuation was prepared, a discount rate of 11.1% was applied to each cash-generating unit. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year New Zealand Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each segment.

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

As at September 30, 2019, the balance of goodwill recorded as an asset on the ANZ New Zealand Group's consolidated balance sheet as a result of acquisitions was $3,160 million ($3,230 million as at September 30, 2018).

Results of operations

Financial year ended September 2019 compared with financial year ended September 2018 (consolidated results)

On December 12, 2019, the ANZ New Zealand Group issued its audited financial statements for the financial year ended September 30, 2019, which are included in the ANZ New Zealand Financial Statements attached to this Offering Memorandum as Annex A.

The table below sets forth the ANZ New Zealand Group's results for the financial years ended September 30, 2019, 2018 and 2017.

Summary Income Statement data

NZ$ millions, unless otherwise stated	2019 US$ millions[1]	2019[2]	2018[2]	2017[2]
		Financial year ended September 30,		
Interest income	4,022	6,423	6,390	6,198
Interest expense	1,991	3,179	3,240	3,161
Net interest income	2,031	3,244	3,150	3,037
Other operating income	592	946	1,126	938
Net operating income	2,624	4,190	4,276	3,975
Operating expenses	1,007	1,608	1,517	1,468
Profit before credit impairment and income tax	1,617	2,582	2,759	2,507
Credit impairment charge	63	101	55	62
Profit before income tax	1,554	2,481	2,704	2,445
Income tax expense	415	662	751	680
Profit after income tax	1,139	1,819	1,953	1,765

(1) For the convenience of the reader, the financial data for the financial year ended September 30, 2019 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 30, 2019 of NZ$1.00=US$0.6262.

(2) Source: ANZ New Zealand Financial Statements.

Profit after income tax for 2019 compared to 2018 decreased 7%, or $134 million, to $1,819 million.

Net interest income increased $94 million, or 3%, from $3,150 million in 2018 to $3,244 million in 2019. The increase reflects lending and deposit volume growth. The net interest margin decreased 4 basis points in a competitive environment driven by a lower yield on interest earning assets and customer remediation provisions raised, partly offset by lower funding costs. Period end lending volumes increased 5% in 2019, mainly reflecting growth in housing lending. Customer deposits increased 5% in 2019.

Other operating income decreased $180 million, or 16%, from $1,126 million in 2018 to $946 million in 2019. The main factors contributing to this decrease include:

- Decrease in the mark-to−market value of economic hedge derivatives. Fair value losses of $61 million were recorded in 2019, compared to fair value gains of $66 million in 2018.
- Changes in life insurance contract assets due to movements in long term interest rates used to discount future cash flows resulting in a positive revaluation of net insurance policy assets of $8 million in 2019 compared to a positive revaluation of $21 million in 2018.
- Net income from insurance business decreased $109 million in 2019, primarily due to the loss of income as a result of the OnePath Life NZ divestment.
- Net gains on sale from divested operations of OnePath Life NZ ($66 million) and Paymark Limited ($39 million) in 2019.
- Decrease in other income due to a $20 million cost recovery recognized in respect of the UDC terminated transaction process and insurance proceeds received of $20 million in 2018, both of which were not repeated in 2019.

Operating expenses increased $91 million, or 6%, from $1,517 million in 2018 to $1,608 million in 2019, driven by inflation, investment costs relating to compliance and remediation projects, partly offset by productivity gains and divested operations.

The credit impairment charge increased $46 million from a $55 million charge in 2018 to a $101 million charge in 2019. The individual provision charge decreased $31 million from a $100 million charge in 2018 to a $69 million charge in 2019, primarily due to lower levels of new provisions raised. The collective provision charge was $77 million higher from a $45 million release in 2018 compared to a $32 million charge in 2019 due to customer downgrades, a dairy adjustment for increased risk on farm valuations in 2019 and an economic cycle adjustment in 2018 not repeated in 2019.

Net interest income

The following table shows the ANZ New Zealand Group's net interest income for the financial years ended September 30, 2019 and 2018.

NZ$ millions	Financial year ended September 30, 2019	2018
Interest income	6,423	6,390
Interest expense	3,179	3,240
Net interest income	3,244	3,150

Net interest income totaled $3,244 million in 2019, an increase of 3%, or $94 million, over 2018. The movement in net interest income was driven by an increase due to a change in the average volume growth of $232 million, partially offset by a decrease of $138 million due to a change in average interest rate. Key influences on the result are discussed below.

Movements in average margin[1]

The overall interest spread decreased from 1.83% in 2018 to 1.78% in 2019, with the yield on total average interest earning assets decreasing 18 basis points, and the yield on total average interest bearing liabilities decreasing 13 basis points. Key influences on the result include the following:

- The average yield on net loans and advances decreased 17 basis points from 4.78% in 2018 to 4.60% in 2019, primarily due to repricing and change in mix of the portfolio due to customers switching from floating into lower rate fixed home loans.
- The average yield on commercial paper, deposits and other borrowings decreased 9 basis points from 2.37% in 2018 to 2.28% in 2019 and the average yield on unsubordinated debt decreased 29 basis points from 3.34% in 2018 to 3.05% in 2019, primarily due to a continued low interest rate environment.
- The average yield on trading securities decreased 41 basis points from 2.86% in 2018 to 2.45% in 2019, primarily due to higher yielding assets being replaced by lower yielding assets.

Movements in average volume[1]

- Average interest earning assets increased $6,833 million, or 5%, in 2019 compared to 2018. This increase was mainly in average net loans and advances which increased $6,479 million, or 5%, during 2019. This primarily reflected growth in the housing lending market.
- Average interest bearing liabilities increased $4,180 million during 2019, primarily due to increased commercial paper, deposits and other borrowings.
- Average commercial paper, deposits and other borrowings increased $3,942 million, or 4%. This growth was driven by an increase of $4,907 million in average customer deposits partly offset by a reduction in average certificates of deposit issued of $719 million and commercial paper issued of $255 million.
- Average unsubordinated debt and subordinated debt increased $387 million during 2019 due to new issuances and foreign exchange impacts offset by maturities.

1. *Where applicable, references to average balances and ratios calculated using average balances have been referenced to the table "Average balance sheet and interest income/expense" under "Management's Discussion and Analysis of Financial Condition and Results of Operation—Average balance sheet and interest income/expense". Unless otherwise stated, the methodology for calculating average balances is included in that table.*

Other operating income

The following table shows the ANZ New Zealand Group's other operating income for the financial years ended September 30, 2019 and 2018.

	Financial year ended September 30,	
NZ$ millions	2019	2018
Net fee and commission income	666	660
Net income from insurance business	27	149
Net foreign exchange earnings and other financial instruments income	117	250
Share of associates' profit	4	5
Other operating income	132	62
Other operating income	946	1,126

Other operating income totaled $946 million in 2019, a decrease of $180 million, or 16%, compared to 2018. Key influences on the result include the following:

- Net fee and commission income increased $6 million, or 1%. This was due to higher funds management income, which increased $7 million as a result of growth in net inflow from investors and favorable market performance.

- Net income from the insurance business decreased $122 million, or 82%, primarily due to the loss of income resulting from the divestment of OnePath Life NZ of $109 million and a decrease in the positive revaluation of the net insurance policy assets of $8 million in 2019 compared to $21 million in 2018.

- Net foreign exchange earnings and other financial instruments income decreased $133 million in 2019 compared to 2018. This was due to a decrease in the mark-to-market value of economic hedge derivatives. Fair value losses of $61 million were recorded in 2019, compared to fair value gains of $66 million in 2018.

- Other operating income increased $70 million, or 112%. This was primarily due to net gains on sale from divested operations of OnePath Life NZ ($66 million) and Paymark Limited ($39 million), partly offset by a $20 million cost recovery recognized in respect of the UDC termination transaction process and insurance proceeds received of $20 million in 2018, both of which were not repeated in 2019.

Operating expenses

The following table shows the ANZ New Zealand Group's operating expenses for the financial years ended September 30, 2019 and 2018.

	Financial year ended September 30,	
NZ$ millions	2019	2018
Personnel costs	922	891
Premises costs	153	153
Technology costs	205	225
Other costs	328	248
Operating expenses	1,608	1,517

Operating expenses totaled $1,608 million in 2019, an increase of $91 million, or 6%, over 2018. The key influences on the result include the following:

- Personnel costs increased $31 million, or 3%, due to inflation, long service leave provision top-up and compliance and remediation costs partly offset by productivity gains from simplifying the business and divested operations.

- Technology costs decreased $20 million, or 9%, in 2019 compared to 2018, due to reduced project demand and one-off costs incurred in 2018, which was not repeated in 2019.

- Other costs increased $80 million, or 32%, in 2019 compared to 2018, due to customer remediation and legal provisions raised, investment relating to compliance and remediation projects and higher head office charges relating to project costs.

Credit impairment charge

Credit impairment charge totaled $101 million for 2019, an increase of $46 million compared to 2018.

- The individual provision charge was $31 million lower, due to lower levels of new provisions raised.
- The collective provision charge was $77 million higher due to customer downgrades, a dairy adjustment for increased risk on farm valuations and an economic cycle adjustment in 2018 not repeated in 2019.

Summary Balance Sheet data

NZ$ millions (unless otherwise stated)	2019[1] US$ millions	2019	2018	2017
		As at September 30,		
Assets				
Cash and cash equivalents	1,480	2,363	2,200	2,338
Settlement balances receivable	121	193	656	536
Collateral paid	1,455	2,324	1,919	1,415
Trading securities	5,599	8,942	8,024	7,663
Derivative financial instruments	7,305	11,666	8,086	9,878
Investment securities	4,400	7,027	6,502	6,360
Net loans and advances	82,987	132,525	126,466	117,627
Assets held for sale	-	-	897	3,065
Life insurance contract assets	-	-	-	636
Investment in associates	-	-	6	7
Deferred tax assets	48	77	-	-
Goodwill and other intangibles	2,051	3,276	3,289	3,275
Investments backing insurance contract liabilities	-	-	-	123
Premises and equipment	210	335	325	367
Other assets	432	688	642	683
Total assets	106,088	169,416	159,012	153,973
Liabilities				
Settlement balances payable	1,006	1,607	2,161	1,840
Collateral received	621	991	845	613
Deposits and other borrowings	71,028	113,427	108,008	101,657
Derivative financial instruments	6,915	11,042	8,095	9,826
Current tax liability	63	101	161	39
Deferred tax liabilities	-	-	21	187
Liabilities held for sale	-	-	334	1,088
Payables and other liabilities	726	1,159	947	1,151
Employee entitlements and other provisions	283	452	196	185
Debt issuances	16,411	26,207	25,135	24,606
Total liabilities	97,052	154,986	145,903	141,192
Total equity	9,036	14,430	13,109	12,781

(1) For the convenience of the reader, the financial data as at September 30, 2019 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 30, 2019 of NZ$1.00=US$0.6262.

Other Banking data

	RBNZ Minimum	As at September 30, 2019	2018
Capital adequacy ratios			
Common Equity Tier 1 capital (%)	4.5	10.8	11.1
Tier 1 capital (%)	6.0	13.6	14.4
Total capital (%)	8.0	13.6	14.4
Risk-weighted exposures (NZ$ millions) [1]		97,070	82,147

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

Total assets increased $10,404 million, from $159,012 million as at September 30, 2018, to $169,416 million as at September 30, 2019. Key influences on the movement in assets include:

- Assets held for liquidity purposes comprise cash and cash equivalents, settlement balances receivable, trading securities, and investment securities. These assets in aggregate increased $1,143 million ($18,525 million as at September 30, 2019, from $17,382 million as at September 30, 2018). The increase in assets held for liquidity purposes is reflective of overall liquidity management activities.

- Derivative financial instruments assets increased $3,580 million due to an increase in unrealized gains on interest rate contracts and unrealized gains on foreign currency contracts.

- Net loans and advances increased $6,059 million, or 5%, as at September 30, 2019. Gross loans and advances increased $6,044 million, with $5,612 million of this being housing lending. The credit impairment balance decreased $15 million to $497 million as at September 30, 2019, which is netted against gross loans and advances.

Total liabilities increased $9,083 million, from $145,903 million as at September 30, 2018, to $154,986 million as at September 30, 2019. Key influences on the movement in liabilities include:

- Total deposits and other borrowings increased $5,419 million, or 5%, as at September 30, 2019. Customer deposits increased $5,181 million, or 5%, reflecting deposit gathering to fund growth in lending.

- Debt issuances increased $1,072 million during 2019. The increase reflects new issuances of $4,010 million, a positive exchange rate impact of $971 million, and maturities of $3,909 million.

- Derivative financial instruments liabilities increased $2,947 million due to an increase in revaluation losses as interest rate contracts and unrealized losses on foreign exchange contracts.

Financial year ended September 2019 compared with financial year ended September 2018 (results by segment).

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

- Retail

- Commercial

- Institutional

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

The following table shows the results of the ANZ New Zealand Group's business segments for the financial years ended September 30, 2019, 2018 and 2017:

	Financial year ended September 30,		
NZ$ millions	2019	2018	2017
Retail	916	992	977
Commercial	542	557	439
Institutional	267	261	361
Other	94	143	(12)
Profit after income tax	1,819	1,953	1,765

The following table shows the results of the ANZ New Zealand Group's Retail segment (which includes the personal and Business Banking businesses and Wealth) for the financial years ended September 30, 2019 and 2018:

Retail

NZ$ millions	Financial year ended September 30, 2019	2018
Net interest income	1,798	1,777
Other operating income	597	685
Net operating income	2,395	2,462
Operating expenses	1,078	1,036
Profit before credit impairment and income tax	1,317	1,426
Credit impairment charge	47	50
Profit before income tax	1,270	1,376
Income tax expense	354	384
Profit after income tax	916	992
Loans and advances	81,789	76,843
Deposits	73,866	70,259

Retail profit after income tax of $916 million in 2019 decreased $76 million, or 8%, compared to 2018.

- Net interest income increased $21 million, or 1%, in 2019 compared to 2018 mainly due to lending and deposit volume growth partly offset by customer remediation provisions raised and divested operations. Net interest margin was down 16 basis points year on year due to customer preference for lower margin fixed lending, a competitive environment and customer remediation.

- Other operating income decreased $88 million, or 13%, in 2019 compared to 2018 due to the loss of income as a result of the OnePath Life NZ divestment.

- Operating expenses increased $42 million, or 4%, in 2019 compared to 2018 due to inflation and investment relating to compliance and remediation projects, partly offset by productivity gains and divested operations.

- The credit impairment charge decreased $3 million due to lower provisions raised.

- Loans and advances increased $4,946 million, or 6%, as at September 30, 2019 compared to September 30, 2018, primarily due to housing loan growth and a net $1,471 million repurchase of mortgages from the New Zealand branch of ANZBGL. Deposit volumes grew by $3,607 million, or 5%, as at September 30, 2019 compared to September 30, 2018 due to a focus on deposit gathering to fund growth in lending.

Commercial

NZ$ millions	Financial year ended September 30, 2019	2018
Net interest income	1,057	970
Other operating income	17	21
Net operating income	1,074	991
Operating expenses	274	258
Profit before credit impairment and income tax	800	733
Credit impairment (release) / charge	47	(41)
Profit before income tax	753	774
Income tax expense	211	217
Profit after income tax	542	557
Loans and advances	43,464	42,446
Deposits	16,138	16,842

The Commercial segment includes the CommAgri business and UDC.

Commercial profit after income tax of $542 million decreased $15 million, or 3%, in 2019 compared to 2018.

- Net interest income increased $87 million, or 9%, in 2019 compared to 2018. This reflected the positive impact from lending and deposit volume growth and repricing the book.

- Operating expenses increased $16 million, or 6%, in 2019 compared to 2018 due to inflation and investment relating to compliance and remediation projects, partly offset by productivity gains.

- The credit impairment charge increased $88 million in 2019 compared to 2018. The individual provision charge was $29 million higher in 2019 compared to 2018 due to a lower level of write-backs partly offset by a lower level of new provisions raised. The collective provision charge was $59 million higher in 2019 compared to 2018 due to a dairy adjustment for increased risk on farm valuations in 2019 and an economic cycle adjustment in 2018 not repeated in 2019.

- Loans and advances increased $1,018 million, or 2%, in 2019 compared to 2018. Deposit volumes decreased $704 million, or 4%, in 2019 compared to 2018.

Institutional

	Financial year ended September 30,	
NZ$ millions	2019	2018
Net interest income	344	325
Other operating income	250	265
Net operating income	594	590
Operating expenses	216	182
Profit before credit impairment and income tax	378	408
Credit impairment charge / (release)	7	46
Profit before income tax	371	362
Income tax expense	104	101
Profit after income tax	267	261
Loans and advances	7,270	7,166
Deposits	19,232	16,954

Institutional profit after income tax of $267 million increased $6 million, or 2%, in 2019 compared to 2018.

- Net operating income increased $4 million, or 1%, in 2019 compared to 2018 mainly due to favorable movements in credit spreads.

- Operating expenses increased $34 million, or 19%, in 2019 compared to 2018 due to customer remediation and legal provisions raised.

- The credit impairment charge decreased $39 million in 2019 compared to 2018 due to specific customer provisions raised in 2018 not repeated in 2019.

Other

	Financial year ended September 30,	
NZ$ millions	2019	2018
Profit before income tax	87	192
Income tax expense	(7)	49
Profit after income tax	94	143

Other businesses mainly comprise support and Treasury functions that are centrally managed, with costs substantially charged to the operating business units, including (i) the shareholder functions unit, which holds the ANZ New Zealand Group's equity, including subordinated debt; (ii) certain significant items including the costs of organizational restructuring; and (iii) non-core items, including volatility related to derivatives entered into to manage interest rate and foreign exchange risk that are not designated in accounting hedge relationships but are considered to be economic hedges.

The result in 2019 reflected the following:

- Decrease in the mark-to−market value of economic hedge derivatives. Fair value losses of $61 million were recorded in 2019, compared to fair value gains of $66 million in 2018.

- Changes on life insurance contract assets due to movements in long term interest rates used to discount future cash flows resulting in a positive revaluation of net insurance policy assets of $8 million in 2019 compared to a positive revaluation of $21 million in 2018.

- Net gains on sale from divested operations of OnePath Life NZ and Paymark Limited of $66 million and $39 million, respectively, in 2019.

- Decrease in other income due to a $20 million cost recovery recognized in respect of the UDC terminated transaction process in 2018 not repeated in 2019.

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

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

The table below sets forth the ANZ New Zealand Group's results for the financial years ended September 30, 2018 and 2017.

Summary Income Statement data

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

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

(2) Source: ANZ New Zealand Financial Statements.

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

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

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

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

- Gains on life insurance contract assets due to movements in long term interest rates used to discount future cash flows resulting in a positive revaluation of net insurance policy assets of $21 million in 2018 compared to a negative revaluation of $36 million in 2017.

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

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

- Increases in other income due to a $20 million cost recovery recognized in respect of the UDC terminated transaction process and insurance proceeds received of $20 million.

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

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

Net interest income

The following table shows the ANZ New Zealand Group's net interest income for the financial years ended September 30, 2018 and 2017.

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

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

Movements in average margin[2]

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

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

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

- The average yield on trading securities decreased 50 basis points from 3.36% in 2017 to 2.86% in 2018, primarily due to disposal and maturity of higher yielding assets being replaced by lower yielding assets.

Movements in average volume[2]

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

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

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

2. *Where applicable, references to average balances and ratios calculated using average balances have been referenced to the table "Average balance sheet and interest income/expense" under "Management's Discussion and Analysis of Financial Condition and Results of Operation—Average balance sheet and interest income/expense". Unless otherwise stated, the methodology for calculating average balances is included in that table.*

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

Other operating income

The following table shows the ANZ New Zealand Group's other operating income for the financial years ended September 30, 2018 and 2017.

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

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

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

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

- Increases in other income due to a $20 million cost recovery recognized in respect of the UDC terminated transaction process and insurance proceeds received of $20 million.

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

Operating expenses

The following table shows the ANZ New Zealand Group's operating expenses for the financial years ended September 30, 2018 and 2017.

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

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

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

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

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

Credit impairment charge

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

- The individual provision charge was $6 million lower, due to lower levels of new provisions raised partly offset by lower write-backs.
- The collective provision release was $1 million lower due to credit quality improvements and an economic cycle adjustment.

Summary Balance Sheet data

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

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

Other Banking data

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

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

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

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

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

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

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

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

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

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

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

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

- Retail

- Commercial

- Institutional

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

The following table shows the results of the ANZ New Zealand Group's business segments for the financial years ended September 30, 2018 and 2017:

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

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

Retail

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

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

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

Commercial

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

The Commercial segment includes the CommAgri business and UDC.

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

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

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

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

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

Institutional

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

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

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

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

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

Other

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

Other businesses mainly comprise support and Treasury functions that are centrally managed, with costs substantially charged to the operating business units, including (i) the shareholder functions unit, which holds the ANZ New Zealand Group's equity, including subordinated debt; (ii) certain significant items including the costs of organizational restructuring; and (iii) non-core items, including volatility related to derivatives entered into to manage interest rate and foreign exchange risk that are not designated in accounting hedge relationships but are considered to be economic hedges.

The result in 2018 reflected the following:

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

- Gains on life insurance contract assets due to movements in long term interest rates used to discount future cash flows resulting in a positive revaluation of net insurance policy assets of $21 million in 2018 compared to a negative revaluation of $36 million in 2017.

- Increases in other income due to a $20 million cost recovery recognized in respect of the UDC terminated transaction process and insurance proceeds received of $20 million.

Average balance sheet and interest income/expense

The following table shows the major categories of interest earning assets and interest bearing liabilities and the respective interest rates that ANZ New Zealand earned or paid for the periods indicated. Average balances have been calculated using monthly balances prepared on the same basis as balances included in the ANZ New Zealand Financial Statements. Interest income figures include interest income on non-accrual loans to the extent cash payments in the nature of interest have been received. Non-accrual loans are included under the interest earning asset category "Net loans and advances".

						Financial year ended September 30,			
			2019			2018			2017
NZ$ millions (unless otherwise stated)	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
Assets									
Interest earning assets									
Trading securities	8,299	203	2.45	8,384	240	2.86	10,450	351	3.36
Net loans and advances	130,250	5,985	4.60	123,771	5,912	4.78	118,249	5,675	4.80
Other interest earning financial assets	11,581	235	2.03	11,142	238	2.14	8,909	172	1.93
Total interest earning assets	150,130	6,423	4.28	143,297	6,390	4.46	137,608	6,198	4.50
Non-interest earning assets									
Provision for impairment	(489)	-	-	(567)	-	-	(611)	-	-
Property, plant and equipment	327	-	-	354	-	-	380	-	-
Other assets	14,811	-	-	15,341	-	-	20,752	-	-
Total non-interest earning assets	14,649	-	-	15,128	-	-	20,521	-	-
Total assets	164,779	6,423	-	158,425	6,390	-	158,129	6,198	-
Liabilities									
Interest bearing liabilities									
Commercial paper, deposits and other borrowings	100,843	2,303	2.28	96,901	2,293	2.37	93,743	2,212	2.36
Unsubordinated debt	22,431	684	3.05	21,585	721	3.34	19,747	704	3.57
Subordinated debt	2,439	171	7.01	2,898	198	6.83	3,283	220	6.70
Other interest bearing financial liabilities	1,538	21	1.37	1,687	28	1.66	1,372	25	1.82
Total interest bearing liabilities	127,251	3,179	2.50	123,071	3,240	2.63	118,145	3,161	2.68
Non-interest bearing liabilities									
Other liabilities	23,778	-	-	22,168	-	-	26,987	-	-
Total non-interest bearing liabilities	23,778	-	-	22,168	-	-	26,987	-	-
Total liabilities	151,029	3,179	-	145,239	3,240	-	145,132	3,161	-
Net assets	13,750	3,244	-	13,186	3,150	-	12,997	3,037	-

Volume and rate analysis

The following table attributes variances in the ANZ New Zealand Group's interest income and interest expense to changes in volume and rate for the financial year ended September 30, 2019, compared with the financial year ended September 30, 2018, and for the financial year ended September 30, 2018, compared with the financial year ended September 30, 2017. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities. Average balances have been calculated using monthly balances prepared on the same basis as balances included in the ANZ New Zealand Financial Statements.

						Financial year ended September 30,
			2019 v. 2018			2018 v. 2017
	Increase / (Decrease) due to:			Increase / (Decrease) due to:		
NZ$ millions	Change in volume	Change in rate	Net change	Change in volume	Change in rate	Net change
Interest earning assets						
Trading securities	(2)	(35)	(37)	(69)	(42)	(111)
Gross loans and advances	312	(239)	73	266	(29)	237
Other interest earning financial assets	9	(12)	(3)	43	23	66
Change in interest income	319	(286)	33	240	(48)	192
Interest bearing liabilities						
Commercial paper, deposits and other borrowings	93	(83)	10	75	8	83
Unsubordinated debt	28	(65)	(37)	65	(48)	17
Subordinated debt	(31)	4	(27)	(26)	2	(24)
Other interest bearing financial liabilities	(3)	(4)	(7)	6	(3)	3
Change in interest expense	87	(148)	(61)	120	(41)	79
Change in net interest income	232	(138)	94	120	(7)	113

Liquidity and funding

General

ANZ New Zealand is required to meet RBNZ liquidity requirements as defined in the Conditions of Registration sections 13 and 14. For further discussion of these requirements, see "Regulation and Supervision—Conditions of Registration for ANZ Bank New Zealand Limited". Also, as a material subsidiary of ANZBGL, ANZ New Zealand is required to meet the Basel III liquidity coverage ratio as specified by APRA. The objective of the liquidity coverage ratio is to ensure that an ADI maintains an adequate level of unencumbered high quality liquid assets that can be readily converted into cash to meet its liquidity needs for a 30 calendar day time period under a severe stress scenario. ANZ New Zealand strictly observes its prudential obligations in relation to liquidity and funding risk as required by RBNZ's Conditions of Registration and APRA.

ANZ New Zealand's liquidity policies are designed to ensure that it maintains sufficient cash balances and liquid asset holdings to meet its obligations as they fall due, in both ordinary market conditions and during periods of stress. These obligations include the repayment of deposits on-demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and taxation, the payment of dividends to shareholders, and the ability to fund new and existing loan and contractual commitments.

ANZ New Zealand's funding policies are designed to achieve diversified sources of funding by product, term, maturity date, investor type, investor location, jurisdiction, currency and concentration, on a cost effective basis.

Liquid assets are defined by the willingness of the RBNZ to accept them as collateral.

ANZ New Zealand's principal sources of liquidity are:

- the maturity of marketable securities;
- interest and principal repayments received from customer loans;
- customer deposits;
- proceeds from bonds, notes, and subordinated debt issues;

- fee income;
- interest and dividends from investments;
- security repurchase agreements with the RBNZ; and
- related party loans and asset sales, particularly involving the New Zealand branch of ANZBGL.

Developments in major offshore markets can adversely affect liquidity in short and/or long term global capital markets. Although these events may be unrelated to events in New Zealand, ANZ New Zealand can be exposed to them due to its requirement to fund regularly in the offshore market. While ANZ New Zealand has continued to fund in both short and long term markets at costs prevailing at the time, it has taken a number of actions to manage its short and long term funding risks effectively in this environment, including:

- increasing minimum holdings of liquid assets to improve its ability to manage periods of market illiquidity;
- As at September 30, 2019, ANZ New Zealand held $15,607 million of bonds which could be used for repurchase transactions with the RBNZ;
- establishing an "in-house" RMBS structure to generate securities that meet the RBNZ criteria for eligible collateral for repurchase transactions, which significantly increases ANZ New Zealand's funding ability from the RBNZ. As at September 30, 2019, ANZ New Zealand held eligible RMBS collateral which could be used for repurchase transactions with the RBNZ generating $7,179 million of funding;
- the ANZ New Zealand Board approved the sale, from time-to-time, into the New Zealand branch of ANZBGL of up to $15 billion of residential mortgages. As at September 30, 2019, the New Zealand branch of ANZBGL held $739 million of residential mortgages. For further discussion, see "Regulation and Supervision—Restrictions on ANZBGL's ability to provide financial support to its New Zealand Operations—Effect of APRA's Prudential Standards";
- ensuring that the impact of increased funding costs is passed on to its businesses, which is reflected in pricing to customers;
- actively managing its maturity profile in line with its established policies and the RBNZ liquidity policy. For example the Core Funding Ratio (CFR) is derived from customer deposits, as determined by the RBNZ, plus eligible term debt, plus tier 1 capital divided by Total Loans and Advances. The RBNZ CFR minimum requirement is 75%; and
- the assets of the ANZNZ Covered Bond Trust, are made up of certain housing loans and related securities originated by ANZ New Zealand and which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the ANZNZ Covered Bond Trust of issuances of covered bonds by ANZ New Zealand or ANZNIL from time to time. Currently, ANZNIL has on issue covered bonds with a face value of € 2,500 million. As at September 30, 2019, the ANZNZ Covered Bond Trust held NZ$11.5 billion of loans.

The following table sets forth an analysis of ANZ New Zealand's contractual cash obligations in respect to subordinated and unsubordinated debt issuances as at September 30, 2019. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows and operating lease cash flows. As a result the amounts in the tables differ from those represented in the balance sheet.

				As at September 30, 2019
NZ$ millions	Due within 1 year	Due between 1 and 5 years	Due beyond 5 years	Total
Debt issuances	5,143	16,925	5,277	27,345
Lease rental commitments	53	148	91	292
Total contractual cash obligations	5,196	17,073	5,368	27,637

ANZ New Zealand’s current borrowing programs as at September 30, 2019, other than borrowings from its ultimate parent company, ANZBGL, are summarized in the table below. In addition to these programs, from time to time ANZ New Zealand issues subordinated debt securities in the New Zealand market that are subject to APRA and RBNZ approval.

Active borrowing programs	Program size (millions)	Amount outstanding (millions)	Issuing entity	Principal market	Governing law
Euro Commercial Paper Program - short term	US$10,000	US$-	ANZNIL[1]	Offshore non-US based	English
U.S. Commercial Paper Program - short term	US$10,000	US$1,538	ANZNIL[1]	Offshore US-based	New York
Domestic Term Note Program	NZ$5,000	NZ$3,835	ANZ New Zealand	On shore	New Zealand
Euro Medium-Term Note Program	US$10,000	US$3,336	ANZ New Zealand and ANZNIL[1]	Offshore non-US based	English
U.S. Medium-Term Note Program	US$10,000	US$6,250	ANZ New Zealand and ANZNIL[1]	Offshore US-based	New York
ANZNZ Covered Bond Program	€8,000	€2,500	ANZ New Zealand and ANZNIL[1, 2]	Offshore	English
Domestic Registered Certificate of Deposits Program	Unlimited	NZ$1,484	ANZ New Zealand	On shore	New Zealand

(1) Borrowing obligations guaranteed by ANZ New Zealand.

(2) Borrowing obligations guaranteed by ANZ New Zealand and ANZNZ Covered Bond Trust Limited. Currently, ANZNIL has on issue covered bonds with a face value of €2,500 million.

For an analysis of ANZ New Zealand's borrowings by maturity, please see “Additional Financial and Statistical Information—Maturity distribution of borrowings” included elsewhere in this Offering Memorandum.

ANZ New Zealand's liquidity policies are adopted by ANZ New Zealand’s Board to ensure that it has sufficient funds available to meet all its known and potential commitments and to meet its regulatory obligations.

Based on the level of resources within ANZ New Zealand's businesses and its ability to access wholesale money markets and to issue debt securities should the need arise, ANZ New Zealand considers that its overall liquidity is sufficient to meet its current obligations to customers, policyholders and bondholders. ANZ New Zealand's business complies with the current liquidity requirements of the RBNZ.

Within ANZ New Zealand's business, liquidity relates to ANZ New Zealand's ability to make interest payments and to repay deposits. ANZ New Zealand's current policy is to ensure that liquid assets and funding capabilities are sufficient to meet expected cash flows under different scenarios. ANZ New Zealand's primary source of funding is from deposits, either on-demand or short-term deposits and term deposits. Although substantial portions of retail accounts are contractually repayable within one year, on-demand, or at short notice, customer deposit balances have traditionally provided a stable source of ANZ New Zealand's core long-term funding.

ANZ New Zealand also accesses the New Zealand and international debt capital markets under its various funding programs. As at September 30, 2019, ANZ New Zealand had on issue $26,207 million of term debt securities (bonds, notes and subordinated debt).

The cost and availability of ANZ New Zealand’s senior unsecured financing is influenced by credit ratings. As at February 4, 2020, the credit ratings and rating outlooks for ANZ New Zealand’s short-term and long-term senior unsecured debt were as follows:

Credit rating agency	Short-term debt	Long-term debt	Outlook
S&P	A-1+	AA-	Stable
Moody’s	P-1	A1	Stable
Fitch	F1+	AA-	Negative

Credit ratings are neither a rating of securities nor a recommendation to buy, hold or sell securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.

The ability to sell assets quickly is also an important source of ANZ New Zealand's liquidity. ANZ New Zealand holds sizeable balances of government securities and other debt securities which could be sold or are eligible as collateral for borrowing from the RBNZ to provide additional funding should the need arise.

Internal RMBS Securitization

The RBNZ includes RMBS that satisfy criteria as acceptable collateral that banks can pledge and borrow against as part of its liquidity management arrangements designed to help ensure adequate liquidity for New Zealand financial institutions in the event of market disruption. ANZ New Zealand has an in-house RMBS facility that issues securities meeting the RBNZ criteria. The facility provides part of ANZ New Zealand's funding capability from the RBNZ. It also resulted in ANZ New Zealand's financial statements recognizing a payable and receivable of equal amount totalling $9,616 million as at September 30, 2019, to Kingfisher NZ Trust 2008-1, a consolidated entity. ANZ New Zealand's consolidated financial statements did not change as a result of establishing this facility.

Sale of Residential Mortgage Assets

As at September 30, 2019, the New Zealand branch of ANZBGL held $739 million of residential mortgage assets purchased from ANZ New Zealand. These assets qualify for derecognition as ANZ New Zealand does not retain a continuing involvement in the transferred assets.

Off-Balance Sheet Financial Instruments

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

ANZ New Zealand also seeks to earn interest margins through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet loans and advances; ANZ New Zealand also enters into guarantees and other commitments such as letters of credit and performance, and other, bonds.

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

Derivatives

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

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

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

									As at September 30,
			2019			2018			2017
NZ$ millions	Face or Contract Value	Fair Value Gain	Fair Value Loss	Face or Contract Value	Fair Value Gain	Fair Value Loss	Face or Contract Value	Fair Value Gain	Fair Value Loss
Derivatives held for trading									
Foreign exchange derivatives									
Spot and forward contracts	137,909	2,264	1,785	116,159	1,179	889	105,717	615	696
Swap agreements	120,536	2,340	3,225	166,698	2,248	2,146	164,131	1,773	1,895
Options purchased	2,070	35	1	2,171	34	3	1,301	17	
Options sold	1,965	1	35	2,058	2	24	1,268	2	27
Commodity contracts and credit default swaps	1,585	16	22	419	26	26	320	13	14
Interest rate derivatives									
Forward rate agreements	78,219	6	6	75,204	5	4	33,945		
Swap agreements	1,063,213	6,059	4,671	841,108	4,242	3,920	1,049,894	7,062	6,335
Futures contracts	39,935	10	10	20,743	7	10	80,583	5	24
Options purchased	116	3	-	119	3		1,928	3	
Options sold	554	-	-	709		1	1,239		1
Total derivatives held for trading	1,446,102	10,734	9,755	1,225,388	7,746	7,023	1,440,326	9,490	8,992
Derivatives in hedging relationships									
(a) Designated as cash flow hedges									
Interest rate swap agreements	37,730	567	560	31,516	286	253	22,955	302	216
(b) Designated as fair value hedges									
Interest rate swap agreements	25,956	365	727	29,804	54	819	42,038	86	618
Total derivatives held for hedging	63,686	932	1,287	61,320	340	1,072	64,993	388	834
Total derivatives	1,509,788	11,666	11,042	1,286,708	8,086	8,095	1,505,319	9,878	9,826

Collateral of $991 million was received as at September 30, 2019, in relation to derivative financial instruments (September 30, 2018: $845 million; September 30, 2017: $613 million).

Collateral of $2,324 million was paid as at September 30, 2019, in relation to derivative financial instruments (September 30, 2018: $1,919 million; September 30, 2017: $1,415 million).

Contingent Liabilities and Credit Related Commitments

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

The gross value of the instruments and facilities reflects the level of ANZ New Zealand's activity in the various products and not the much smaller net risk exposure. As ANZ New Zealand does not believe that any irrecoverable liability will arise from the settlement of these types of transactions, they are not recorded as on-balance sheet financial instruments.

ANZ New Zealand does not disclose fair value information in respect of off-balance sheet financial instruments, other than derivatives, as it does not believe the estimated fair value is material. Under NZ IFRS, the fair value of derivatives is already reflected in the financial statements.

The face or contract values and credit equivalent amount for ANZ New Zealand's off-balance sheet financial instruments are as follows:

NZ$ millions	2019	As at September 30, 2018	2017
Contract amount of:			
Credit related commitments - facilities provided			
Undrawn facilities	26,600	27,245	26,769
Guarantees and contingent liabilities			
Guarantees and letters of credit	1,248	1,531	1,010
Performance related contingencies	1,502	1,329	1,598
Contracts for outstanding capital expenditure			
Commitments with certain drawdown due within one year	6	7	4

Other Contingent Liabilities

See "Risk Factors—Legal and regulatory risk—Litigation and contingent liabilities may adversely affect the ANZ New Zealand Group's Position" in this Offering Memorandum.

Other Court Proceedings

There are outstanding court proceedings, claims and possible claims for and against the ANZ New Zealand Group. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions and/or disclosures as deemed appropriate have been made. In some instances, the ANZ New Zealand Group has not disclosed the estimated financial impact of the individual items, either because it is not practicable to do so or because such disclosure may prejudice the interests of the ANZ New Zealand Group.

Regulatory Reviews and Customer Exposures

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

Capital Adequacy

ANZ New Zealand's Conditions of Registration, set by the RBNZ, specify the minimum capital requirements with which ANZ New Zealand must comply. The Conditions of Registration require capital adequacy ratios for ANZ New Zealand to be calculated in accordance with BS2B, except for determining the total capital requirement for operational risk which must be calculated in accordance with BS2A.

The following table provides details of ANZ New Zealand Group's CET1, Tier 1 and Tier 2 capital position as at September 30, 2019, and September 30, 2018. The capital ratios are calculated using an internal models based approach and in accordance with RBNZ's Basel III capital standards.

The RBNZ decided that the ANZ New Zealand Group's ORC requirement would be calculated in accordance with BS2A, and ANZ New Zealand's Conditions of Registration were amended to this effect from May 15, 2019. As at March 31, 2019, ANZ New Zealand's ORC requirement increased by NZ$277 million, and its capital ratios decreased by 40 basis points for CET1 capital and 60 basis points for total capital. Restatement of prior period comparatives was not required by the RBNZ. For further information, see "Overview—Recent Developments—Non-compliance with Conditions of Registration."

NZ$ millions, unless otherwise stated	RBNZ Minimum	As at September 30, 2019	2018
Common equity tier 1 capital (%)	4.5	10.8	11.1
Tier 1 capital (%)	6.0	13.6	14.4
Total capital (%)	8.0	13.6	14.4
Buffer ratio (%)	2.5	5.6	6.4
Capital of ANZ New Zealand Group			
Tier 1 capital			
Common equity tier 1 capital			
Paid up ordinary shares issued by ANZ New Zealand		11,588	11,588
Retained earnings (net of appropriations)		2,521	1,188
Accumulated other comprehensive income and other disclosed reserves		21	33
Less deductions from common equity tier 1 capital			
Goodwill and intangible assets, net of associated deferred tax liabilities		(3,276)	(3,381)
Deferred tax assets less deferred tax liabilities relating to temporary differences		(107)	-
Cash flow hedge reserve		(27)	(22)
Expected losses to extent greater than total eligible allowances for impairment		(274)	(325)
Common equity tier 1 capital		10,446	9,081
Additional tier 1 capital			
Preference shares		300	300
ANZ Capital Notes		2,441	2,441
Capital attributable to Bonus Bonds Scheme investors		39	35
Additional tier 1 capital		2,780	2,776
Total tier 1 capital		13,226	11,857
Tier 2 capital		-	-
Total capital		13,226	11,857

Capital Adequacy in New Zealand

The bank prudential supervisor in New Zealand is the RBNZ. It imposes capital adequacy requirements on banks, the objective of which is to ensure that an adequate level of capital is maintained, thereby providing a buffer to absorb unanticipated losses from activities. The RBNZ's approach to assessing capital adequacy focuses on credit risk associated with the bank's exposures, market and operational risks and the quality and quantity of a bank's capital.

ANZ New Zealand is accredited by the RBNZ to use the IRB approach for calculating capital adequacy ratios except for ORC, which is calculated in accordance with BS2A from March 31, 2019.

The RBNZ has implemented the Basel III capital adequacy requirements, as modified to reflect New Zealand conditions. The RBNZ also required most New Zealand incorporated registered banks, including ANZ New Zealand, to maintain a conservation buffer of 2.5% above the minimum ratios or face restrictions on distributions.

The RBNZ also has the discretion to apply a countercyclical buffer of common equity with an indicative range of between 0 and 2.5%, although there is no formal upper limit.

The RBNZ defines total regulatory capital as the sum of Tier 1 capital and Tier 2 capital. Tier 1 capital comprises CET1 capital and Additional Tier 1 capital. Each category of capital is calculated net of the associated regulatory adjustments prescribed by the RBNZ.

ICAAP

ANZ New Zealand's ICAAP incorporates overall capital policies and objectives, capital management policies and plans, allocation of capital to business units and stress testing of both risk and capital positions.

ANZ New Zealand's core capital objectives are to:

- protect the interests of depositors, creditors and shareholders;
- ensure the safety and soundness of ANZ New Zealand's capital position; and
- ensure that the capital base supports ANZ New Zealand's risk appetite, and strategic business objectives, in an efficient and effective manner.

The Board holds ultimate responsibility for ensuring that capital adequacy is maintained. This includes setting, monitoring and obtaining assurance for ANZ New Zealand's ICAAP policy and framework, standardized risk definitions for all material risks, materiality thresholds, capital adequacy targets and risk appetite.

ANZ New Zealand has minimum and trigger levels for CET1, Tier 1 and total capital to ensure sufficient capital is maintained to:

- meet minimum prudential requirements as defined in ANZ New Zealand's Conditions of Registration; and
- ensure consistency with ANZ New Zealand's overall risk profile and financial positions, taking into account its strategic focus and business plan.

ANZ New Zealand's Asset & Liability Committee ("ALCO") and its related Capital Management Forum are responsible for developing, implementing and maintaining ANZ New Zealand's ICAAP framework including on-going monitoring, reporting and compliance.

ANZ New Zealand's ICAAP is subject to independent and periodic review conducted by Internal Audit.

ANZ New Zealand has complied with all RBNZ minimum levels of capital requirements as required by ANZ New Zealand's Conditions of Registration during the current and comparative periods.

ANZ New **Zealand's** Capitalization

ANZ New Zealand's CET1 capital adequacy ratio was 10.8% as at September 30, 2019, a decrease from 11.1% as at September 30, 2018. The Tier 1 capital adequacy ratio was 13.6% as at September 30, 2019, a decrease from 14.4% as at September 30, 2018. The total capital adequacy ratio was 13.6% as at September 30, 2019, a decrease from 14.4% as at September 30, 2018.

Risk Weighted Exposures

Credit Risk

Under the IRB approach, banks use their own internal risk measures, subject to certain RBNZ impositions, for calculating the level of credit risk associated with customers and exposures, by way of the primary components of:

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

Exposure at Default ("EAD") – the expected facility exposure at default; and

Loss Given Default ("LGD") – an estimate of the potential economic loss on a credit exposure, incurred as a result of obligor default and expressed as a percentage of the facility's EAD. For retail mortgage exposures, New Zealand banks apply downturn LGDs according to LVR prescribed bands as set out in BS2B. For Farm Lending, ANZ New Zealand has adopted RBNZ prescribed LVR based downturn LGDs along with a minimum maturity of 2.5 years and the removal of the firm size adjustment.

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

Under the IRB approach credit exposures (both on and off-balance sheet) are allocated to an asset class (sovereign, bank, corporate, retail mortgage and other retail) depending on borrower type. In addition equity exposures and other assets such as premises and equipment, cash and claims on the RBNZ are separately identified and risk weighted according to the requirements of BS2B.

For a minor number of portfolios the IRB approach is not adopted as, due to systems constraints or other reasons, determining IRB estimates is not currently feasible or appropriate. Risk weights for these exposures are calculated under a Standardized Approach as prescribed by BS2A.

The RBNZ released its final decisions on key components of the capital review on December 5, 2019. The RBNZ has determined that risk weights for sovereign and bank exposures of IRB banks are to be calculated under the Standardized Approach as prescribed by BS2A. This is expected to apply from July 1, 2020. See "Regulation and Supervision—New Zealand Regulatory Developments—RBNZ review of capital requirements" for further discussion.

Operational Risk

Banks are required to hold capital against operational risks associated with their business. As of May 15, 2019, ANZ New Zealand uses the Standardized approach for determining its regulatory capital requirement for operational risk in accordance with BS2A.

In April 2019, ANZ New Zealand informed the RBNZ that, in the course of a self-review, ANZ New Zealand discovered that it had not been using an approved model for the calculation of its ORC since December 2014. Changes have subsequently been made by the RBNZ to ANZ New Zealand's Conditions of Registration. For further information, see "Overview—Recent Developments—Non-compliance with Conditions of Registration."

Market Risk

Banks are required to hold capital against interest rate, foreign currency and equity risks (together, "market risk"). ANZ New Zealand uses a standardized methodology for the calculation of market risk as prescribed by the RBNZ's BS2A/BS2B Capital Adequacy Framework.

Internal Capital Measurement

In accordance with its Conditions of Registration, ANZ New Zealand is also required to determine an internal capital allocation for other material risks not covered by regulatory capital requirements. The internal capital allocation for ANZ New Zealand's other material risks as at September 30, 2019, was $272 million ($389 million as at September 30, 2018). The other material risks identified include pension risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk and software risk. Insurance, value in-force and business retention risks are no longer included following the sale of OnePath Life (NZ) Limited.

Regulatory Capital

Regulatory capital comprises CET1 capital, Additional Tier 1 capital (together, "Tier 1 capital") and Tier 2 capital. Each category of capital is calculated net of associated regulatory adjustments. The resultant amount of capital forms the total capital base.

CET1 capital includes eligible paid-up ordinary shares, share premium, retained earnings (net of appropriations), accumulated other comprehensive income and other reserves (other than asset revaluation reserves), and minority interests less various prescribed regulatory deduction adjustments including goodwill.

Additional Tier 1 capital includes eligible perpetual shares or debt and Tier 2 capital includes eligible subordinated long-term debt. Both Additional Tier 1 capital and Tier 2 capital instruments must include non-viability trigger events. Additional Tier 1 capital instruments classified as a liability under NZ GAAP must also include loss absorption requirements for a CET1 trigger event.

New Zealand banks are required to maintain a minimum ratio of total capital to total risk weighted exposures of 8%, of which a minimum of 6% must be held in Tier 1 capital and 4.5% must be held in CET1 capital. The numerator of the ratio is the capital base. The denominator of the ratio is total risk weighted exposures.

Where a capital adequacy ratio falls below its minimum ratio plus a buffer ratio, ANZ New Zealand must limit its aggregate distributions (including dividends, share buybacks and discretionary payments on Additional Tier 1 capital instruments) in accordance with its Conditions of Registration. The buffer ratio comprises a conservation buffer of common equity set at 2.5% of risk-weighted assets and also potentially a countercyclical buffer of common equity that will only be deployed when the RBNZ judges that excess private sector credit growth or rapid growth in asset prices is leading to a build-up of system-wide risk.

The RBNZ has undertaken a comprehensive review of the capital adequacy framework applying to New Zealand incorporated registered banks. The aim of the review was to identify the most appropriate framework for setting capital requirements for New Zealand banks, taking into account how the current framework had operated and international developments in bank capital requirements. The RBNZ released its final decisions on key components of the capital review on December 5, 2019. The RBNZ will consult on proposed amendments to the Banking Supervision Handbook to give effect to its decisions in the first half of 2020. The new regime is expected to be implemented in stages from July 1, 2020, with a transition period of seven years before banks are required to fully comply with the new rules. See "Regulation and Supervision— New Zealand Regulatory Developments—RBNZ review of capital requirements" for further discussion.

Risk Weighted Assets

Total required capital as at September 30, 2019

NZ $ millions	Exposure at default	Risk weighted exposure or implied risk weighted exposure[1]	Total capital requirement
Exposures subject to internal ratings based approach	173,525	57,163	4,573
Specialized lending exposures subject to slotting approach	12,641	11,327	906
Exposures subject to standardized approach	2,031	553	44
Equity exposures	1	5	-
Other exposures	2,567	983	79
Total credit risk	190,765	70,031	5,602
Operational risk	n/a	9,720	778
Market risk	n/a	4,788	383
Supervisory adjustment	n/a	12,531	1,003
Total	190,765	97,070	7,766

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

Capital Ratios

(%)	As at September 30, 2019	2018	2017
Common equity tier 1 capital	10.8	11.1	10.7
Tier 1 Capital	13.6	14.4	14.1
Tier 2 Capital	-	-	0.3
Total Capital[1, 2]	13.6	14.4	14.4

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

(2) Effective May 15, 2019, ANZ New Zealand's Conditions of Registration have been amended to require the ANZ New Zealand Group's ORC requirement to be calculated in accordance with BS2A. As at March 31, 2019, ANZ New Zealand's ORC requirement increased by NZ$277 million, and its capital ratios decreased by 0.4% for common equity tier 1 capital and 0.6% for total capital. Prior periods as at September 30, 2018 and 2017 have not been restated as such restatement was not required by the RBNZ. For further information, see "Overview—Recent Developments—Non-compliance with Conditions of Registration."

Risk Management Policies

ANZ New Zealand recognizes the importance of effective risk management to its business success. ANZ New Zealand is committed to achieving strong control and a distinctive risk management capability that enables ANZ New Zealand’s business units to meet their performance objectives.

ANZ New Zealand approaches risk through managing the various elements of the system as a whole rather than viewing them as independent and unrelated parts. The risk management function is independent of the business with clear delegations from the Board and operates within a comprehensive framework comprising:

- the Board, providing leadership, setting risk appetite/strategy and monitoring progress;

- a strong framework for development and maintenance of ANZ New Zealand’s risk management policies, procedures and systems, overseen by an independent team of risk professionals;

- the use of risk tools, applications and processes to execute the global risk management strategy across ANZ New Zealand;

- business unit level accountability, as the “first line of defence”, and for the management of risks in alignment with ANZ New Zealand's strategy; and

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

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

The Board has ultimate responsibility for overseeing the effective deployment of risk management frameworks, policies and processes within New Zealand. ANZ New Zealand's Risk Committee, which is a committee of the Board, assists with this function. The role of the Committee is to assist the Board in the effective discharge of its responsibilities for business, market, credit, capital, financial, operational, compliance, liquidity and funding, insurance and reputational risk management, and to liaise and consult with the ANZBGL Risk Committee as required. ANZ New Zealand has an independent risk management function, which, via the Chief Risk Officer, coordinates risk management directly between Business Unit risk functions and ANZBGL Risk Management functions.

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

ANZ New Zealand's risk management policies are essentially the same as ANZBGL’s but are tailored where required to suit the local New Zealand regulatory and business environment.

The Audit Committee, which is a committee of the Board, has responsibility for reviewing all aspects of published financial statements and internal and external audit processes. It meets at least four times a year, and reports directly to the Board.

Credit Risk

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

This framework is top down, being defined firstly by ANZ New Zealand's Vision and Values and secondly, by Credit Principles and Policies. ANZ New Zealand also maintains a Bank-wide risk appetite framework and business writing strategies for each of its major business units which give practical effect to the credit and risk appetite frameworks. These strategy papers are reviewed by the appropriate management committees and the Board. The effectiveness of the credit risk management framework is validated through compliance and monitoring processes. These, together with portfolio selection, define and guide the credit process, organization and staff.

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

Credit risk includes concentrations of credit risk, intra-day credit risk, credit risk to Bank counterparties and related party credit risk, and is the potential loss arising from the non-performance by the counterparty to an instrument or facility. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual agreements, and encompasses both on and off-balance sheet instruments. Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent on the level of risk. Credit risk policy and management is executed through the Chief Risk Officer who has various dedicated areas within the Risk Management division. Wholesale Risk services ANZ New Zealand's commercial, investment banking and rural lending activities through dedicated teams. Retail Risk services ANZ New Zealand's small business and consumer customers. The Portfolio Reporting team within Risk Management provides an independent overview of credit risk across ANZ New Zealand at a portfolio level. ANZ New Zealand allows discretion for transaction approvals at the business unit level in both the retail and wholesale lending sectors, with larger transactions approved by Retail Risk and Wholesale Risk.

Market Risk

ANZ New Zealand has a market risk management and control framework, to support trading and balance sheet management activities. The framework incorporates a risk measurement approach to quantify the magnitude of market risk within the trading and balance sheet portfolios. This approach and related analysis identify the range of possible outcomes that can be expected over a given period of time, and establish the relative likelihood of those outcomes and allocate an appropriate amount of capital to support these activities.

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

- currency risk is the potential loss arising from the decline in the value of a financial instrument, due to changes in foreign exchange rates or their implied volatilities;

- interest rate risk is the potential loss arising from the change in the value of a financial instrument, due to changes in market interest rates or their implied volatilities; and

- credit spread risk is the potential loss arising from a decline in value of an instrument due to a movement of its margin or spread relative to a benchmark.

VaR Methodology: All the above risks are measured using a VaR methodology. The VaR methodology is a statistical estimate of the likely daily loss and is based on historical market movements. The confidence level is such that there is a 99% probability that the loss will not exceed the VaR estimate on any given day. Conversely, there is a 1% probability of the decrease in market value exceeding the VaR estimate on any given day. ANZ New Zealand has adopted the historical simulation methodology as the standard for the calculation of VaR. This methodology is based on assessing the change in value of portfolios each day against historical prices.

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

The Traded Market risk function provides specific oversight of each of the main trading areas and is responsible for the establishment of a VaR framework and detailed control limits. In all trading areas ANZ New Zealand has implemented models that calculate VaR exposures, monitor risk exposures against defined limits on a daily basis, and "stress test" trading portfolios. The ALCO, comprising executive management, provides oversight of Market Risk.

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

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

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

- currency risk relates to the potential loss arising from the decline in the value of foreign currency positions due to changes in foreign exchange rates. For non-traded instruments in foreign currencies, the risk is monitored and is hedged in accordance with policy. Risk arising from individual funding and other transactions is actively managed. The total amounts of unmatched foreign currency assets and liabilities and consequent foreign currency exposures, arising from each class of financial asset and liability, whether recognized or unrecognized, within each currency are not material;

- liquidity risk is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period. ANZ New Zealand maintains sufficient liquid funds to meet commitments based on historical and forecasted cash flow requirements. Liquidity risk is measured through cash flow modelling, with profiles produced for both normal business and short-term crisis conditions. The RBNZ introduced a Liquidity Policy (BS13 and BS13A) covering the management of liquidity risk by registered banks in New Zealand which took effect from March 30, 2010. A description of these requirements is covered under "Regulation and Supervision—Conditions of Registration for ANZ Bank New Zealand Limited";

- equity risk is the potential loss arising from the decline in the value of equity instruments held by the ANZ New Zealand Group due to changes in their equity market prices or implied volatilities;

- prepayment risk is the potential risk to earnings or market value from when a customer prepays all or part of a fixed rate mortgage and where any customer fee charged is not sufficient to offset the loss in value to ANZ New Zealand of this financial asset due to movements in interest rates and other pricing factors. As far as possible the true economic cost is passed through to customers in line with their terms and conditions and relevant legislation; and

- basis risk is the potential risk to earnings or market value from differences between customer pricing and wholesale market pricing. This is managed through active review of product margins.

Operational Risk

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

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

Operational risk is typically classified into risk event type categories to measure and compare risks on a consistent basis. Examples of operational risk events according to category are as follows:

- internal fraud: fraud involving ANZ New Zealand's employees, contractors or any internal party who acts by deception or with dishonesty to obtain property belonging to another or obtain financial advantage for themselves or cause any financial disadvantage to the ANZ New Zealand Group or others;

- external fraud: fraudulent acts or attempts which originate from outside the ANZ New Zealand Group, more commonly associated with digital banking, lending, and cards products. Specific threats include ATM skimming, malware and phishing attacks and fraudulent applications and transactions, where financial advantage is obtained;

- employment practices and workplace safety: employee relations, diversity and discrimination, and health and safety risks to ANZ New Zealand's employees;

- loss of key staff or inadequate management of human resources including the CEO and the management team of the CEO;

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

- business disruption (including systems failures): risk that ANZ New Zealand's banking operating systems are disrupted or fail;

- damage to physical assets: risk that a natural disaster or terrorist or vandalism attack damages ANZ New Zealand's buildings or property; and

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

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

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

Compliance

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

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

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

Internal Audit Function

ANZ New Zealand's Internal Audit is a function independent of management whose role is to provide the Board and management with an effective and independent appraisal of the internal controls established by management.

Operating under a Board approved Charter, the reporting line for the outcomes of work conducted by Internal Audit is direct to the Chair of the Audit Committee, with a direct communication line to the CEO and the external auditor. The Internal Audit Plan is developed using a risk based approach and is reviewed quarterly. The Audit Committee approves the plan.

All audit activities are conducted in accordance with local and international auditing standards, and the results of the activities are reported to the Audit Committee and management. These results influence the performance assessment of business heads. Furthermore, Internal Audit monitors the remediation of audit issues and reports the current status of any outstanding audits.

Additional Financial and Statistical Information

Set out below is additional financial and statistical information for the ANZ New Zealand Group's business for the periods indicated. For additional information concerning the ANZ New Zealand Group's financial results for the financial years ended September 30, 2019, 2018 and 2017, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Offering Memorandum and the Disclosure Statements.

Assets and liabilities

The following table sets forth the assets and liabilities of the ANZ New Zealand Group's business as at the dates indicated:

		As at September 30,	
NZ$ millions	2019	2018	2017
Assets			
Cash and cash equivalents	2,363	2,200	2,338
Settlement balances receivable	193	656	536
Collateral paid	2,324	1,919	1,415
Trading securities	8,942	8,024	7,663
Derivative financial instruments	11,666	8,086	9,878
Investment securities	7,027	6,502	6,360
Net loans and advances	132,525	126,466	117,627
Assets held for sale	-	897	3,065
Life insurance contract assets	-	-	636
Investments in associates	-	6	7
Deferred tax assets	77	-	-
Goodwill and other intangibles	3,276	3,289	3,275
Investments backing insurance contract liabilities	-	-	123
Premises and equipment	335	325	367
Other assets	688	642	683
Total assets	169,416	159,012	153,973
Liabilities			
Settlement balances payable	1,607	2,161	1,840
Collateral received	991	845	613
Deposits and other borrowings	113,427	108,008	101,657
Derivative financial instruments	11,042	8,095	9,826
Current tax liabilities	101	161	39
Deferred tax liabilities	-	21	187
Liabilities held for sale	-	334	1,088
Payables and other liabilities	1,159	947	1,151
Employee entitlements and other provisions	452	196	185
Debt issuances	26,207	25,135	24,606
Total liabilities	154,986	145,903	141,192
Net assets	14,430	13,109	12,781

Credit risk concentration

The following table sets forth total lending risk by industry, including impaired assets, specific provisions and write-offs:

Analysis of total lending by industry sector is based on Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes. The presentation of this table aligns with the classifications in the data series *"S34 – Banks: Assets – Loans by industry"* published by the RBNZ. This series uses ANZSIC 2006 industry classifications.

						As at September 30, 2019
NZ$ millions	Total lending	Impaired assets	Specific provision	Write-offs	Recoveries	Net write-off
Agriculture	17,855	164	34	16	-	16
Forestry and fishing, agriculture services	1,255	3	1	1	-	1
Manufacturing	2,682	16	2	8	1	7
Electricity, gas, water and waste services	1,414	-	-	-	-	-
Construction	1,832	5	3	2	-	2
Wholesale trade	1,488	5	3	1	-	1
Retail trade and accommodation	2,956	12	7	8	-	8
Transport, postal and warehousing	1,309	3	2	1	-	1
Finance and insurance services	816	27	29	1	-	1
Public administration and safety	343	-	-	-	-	-
Rental, hiring & real estate services	33,340	8	4	-	-	-
Professional, scientific, technical, administrative and support services	1,126	2	2	1	-	1
Households	61,515	37	11	66	20	46
Other	2,537	3	10	1	2	(1)
Total lending	130,468	285	108	106	23	83

Mortgagee Sales

Under New Zealand property law, holders of registered mortgages are able to exercise their right of power of sale when the customer has breached the terms of their loan or mortgage. Before any mortgagee sale can be initiated, a notice under the Property Law Act 2007 ("PLA Notice") must be issued. The PLA Notice is the formal legal notice of default and advises the customer that unless ANZ New Zealand is repaid in full by a set date then ANZ New Zealand may exercise its right of power of sale.

The table below shows the actual PLA Notices issued and mortgagee sales concluded from January 2014 to September 2019.

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

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

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

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

2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PLA issued	14	14	12	14	12	9	13	5	5	6	11	2
Mortgagee sales concluded	1	-	2	1	5	3	3	4	4	1	1	1

2019	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
PLA issued	12	8	3	1	3	4	-	4	6
Mortgagee sales concluded	3	3	1	-	2	-	1	1	3

Interest rate exposures

The interest rate sensitivity analysis of on-balance sheet financial assets and liabilities has been prepared on the basis of contractual maturity or next re-pricing date, whichever is the earlier, except where the contractual terms are not considered to be reflective of interest rate sensitivity, for example, those assets and liabilities priced at the ANZ New Zealand Group's discretion. In such cases, the rate sensitivity is based upon historically observed and/or anticipated rate sensitivity.

Interest rate exposure is monitored by an independent function to ensure that aggregate risk is managed within Board determined policy. The policy ensures that the ANZ New Zealand Group is not exposed to unpalatable variations in economic value and net interest income due to interest rates. Simulation modelling and net gap analysis are undertaken, taking into account the projected change in asset and liability levels and mix. The aggregate interest rate exposure of the balance sheet, including net interest income at risk over the next two years, and the present value sensitivity of the net gap, are reviewed on a monthly basis, under various interest rate scenarios.

The ANZ New Zealand Group's repricing "gap position" as at September 30, 2019, is shown in the following table:

As at September 30, 2019							
NZ$ millions	Total	Up to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	Over 2 years	Non-interest bearing
Financial Assets							
Cash and cash equivalents	2,363	2,081	-	-	-	-	282
Settlement balances receivable	193	-	-	-	-	-	193
Collateral paid	2,324	2,324	-	-	-	-	-
Trading securities	8,942	650	253	253	1,624	6,162	-
Derivative financial instruments	11,666	-	-	-	-	-	11,666
Investment securities	7,027	256	148	247	1,997	4,378	1
Net loans and advances	132,525	64,764	10,935	23,041	24,522	9,663	(400)
Other financial assets	622	-	-	-	-	-	622
Total financial assets	165,662	70,075	11,336	23,541	28,143	20,203	12,364
Financial Liabilities							
Settlement balances payable	1,607	451	-	-	-	-	1,156
Collateral received	991	991	-	-	-	-	-
Deposits and other borrowings	113,427	70,546	16,367	10,978	2,221	1,520	11,795
Derivative financial instruments	11,042	-	-	-	-	-	11,042
Debt issuances	26,207	3,499	1,486	3,446	4,266	13,510	-
Other financial liabilities	841	213	-	-	-	-	628
Total financial liabilities	154,115	75,700	17,853	14,424	6,487	15,030	24,621
Hedging instruments	-	(6,725)	11,340	698	(9,612)	4,299	-
Interest sensitivity gap	11,547	(12,350)	4,823	9,815	12,044	9,472	(12,257)

General banking statistics

The following table provides ratio information relating to the ANZ New Zealand Group's business:

(%, unless otherwise stated)	2019	2018	2017	2016	As at September 30, 2015
Cost to income ratio[1]	38.38	35.48	36.93	41.49	37.33
Cost to average total assets ratio[2]	0.98	0.96	0.93	1.02	1.09
Capital adequacy ratio[3]	13.6	14.4	14.4	13.7	13.6
Risk-weighted exposures (NZ$ millions)[4]	97,070	82,147	81,642	87,119	80,662
Return on average risk-weighted exposures[5]	2.06	2.39	2.07	1.83	2.31
Net interest margin[6]	2.16	2.20	2.21	2.28	2.40
Non-interest income as a percentage of assets[7]	0.57	0.71	0.59	0.55	0.85
Non-interest income as a percentage of total income[8]	22.58	26.33	23.60	22.11	29.01

(1) Operating expenses divided by operating income.

(2) Operating expenses divided by average total assets as shown in the average balance sheet under "Management's Discussion and Analysis of Financial Condition and Results of Operation—Average balance sheet and interest income/expense".

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

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

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

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

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

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

Loans and advances by category

ANZ New Zealand's portfolio by category of loans and advances is set forth in the following table. The statistics reflect ANZ New Zealand's gross loan advances including provisions and net of unearned income.

NZ$ millions	2019	2018	2017	2016	As at September 30, 2015
Overdrafts	927	905	1,040	1,133	1,638
Credit cards	1,569	1,644	1,638	1,663	1,688
Term loans - housing	84,007	78,395	72,524	67,298	59,428
Term loans - non-housing	44,586	44,169	44,227	43,651	42,880
Lease receivables	157	183	205	226	236
Hire purchase	1,706	1,608	1,372	1,098	946
Subtotal	132,952	126,904	121,006	115,069	106,816
Unearned finance income	(237)	(239)	(222)	(211)	(214)
Capitalized brokerage / mortgage origination fees	307	313	334	360	314
Customer liability for acceptances	-	-	-	27	52
Gross loans and advances	133,022	126,978	121,118	115,245	106,968
Provision for credit impairment	(497)	(512)	(579)	(622)	(611)
Total net loans and advances	132,525	126,466	120,539	114,623	106,357

Performance statistics

The following table sets forth ANZ New Zealand's average interest earning assets, net interest income, gross earning rate and net interest margin for the periods indicated:

	Financial year ended September 30,		
NZ$ millions (unless otherwise stated)	2019	2018	2017
Average interest earning assets[1]	150,130	143,297	137,608
Net interest income	3,244	3,150	3,037
Gross earning rate (%)[2]	4.28	4.46	4.50
Net interest margin (%)[3]	2.16	2.20	2.21

(1) Where applicable, references to average balances and ratios calculated using average balances have been referenced to the table "Average balance sheet and interest income/expense" under "Management's Discussion and Analysis of Financial Condition and Results of Operation—Average balance sheet and interest income/expense". Unless otherwise stated, the methodology for calculating average balances is included in that table.

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

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

On-balance sheet and off-balance sheet exposures subject to the IRB approach

The following table sets forth ANZ New Zealand's on-balance sheet and off-balance sheet exposures under the IRB approach:

	As at September 30, 2019					
NZ$ millions (unless otherwise stated)	Total exposure or principal amount	Exposure at default	Exposure-weighted LGD used for the capital calculation (%)	Exposure-weighted risk weight (%)	Risk weighted exposure[1]	Total capital requirement
On-balance sheet exposures						
Corporate	35,188	34,649	33	56	20,399	1,632
Sovereign	13,001	12,811	5	1	144	11
Bank	7,319	5,706	57	21	1,283	103
Retail mortgages	81,901	82,110	19	19	16,404	1,313
Other retail	5,234	5,318	73	92	5,186	415
Total on-balance sheet exposures	142,643	140,594	25	29	43,416	3,474
Off-balance sheet exposures						
Corporate	12,224	11,561	51	48	5,872	470
Sovereign	299	286	5	1	2	-
Bank	1,444	1,180	51	19	243	19
Retail mortgages	8,268	8,684	16	13	1,158	93
Other retail	5,271	5,294	79	57	3,179	254
Total off-balance sheet exposures	27,506	27,005	44	37	10,454	836
Market related contracts	-	-	-	-	-	-
Corporate	82,694	1,991	57	70	1,480	118
Sovereign	12,036	179	5	32	60	5
Bank	1,151,985	3,756	56	44	1,753	140
Total market related contracts	1,246,715	5,926	55	52	3,293	263
Total credit risk exposures subject to the internal ratings based approach	1,416,864	173,525	29	31	57,163	4,573

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

Impaired Assets

Gross impaired assets have decreased $36 million, or 11.2%, from $321 million at September 30, 2018, to $285 million at September, 2019. The decrease was driven by lower levels of new provisions raised in the Institutional business. ANZ New Zealand continues its strategy of working with customers to return them to a productive status or to achieve maximum recoveries for ANZ New Zealand and the customer. Given subdued sales volumes across some asset markets, this strategy can involve extended work-outs for some customers but it is achieving adequate levels of assets realized or repaid, or provisions recovered. Bad debts written-off as at September 30, 2019, were $106 million. There was no impact on impaired assets from adoption of NZ IFRS 9 on October 1, 2018.

The following table sets forth details of ANZ New Zealand's impaired assets for the periods indicated:

				As at September 30,	
NZ$ millions, unless otherwise stated	2019	2018	2017	2016	2015
Gross balances of impaired assets					
with individual provisions set aside	258	298	334	401	368
without individual provisions set aside	27	23	23	25	14
Gross impaired assets	285	321	357	426	382
Individual provision for credit impairment	108	130	152	151	154
Net impaired assets	177	191	205	275	228
Details of size of gross impaired assets					
Less than one million	66	56	56	95	137
Greater than one million but less than ten million	156	126	131	166	114
Greater than ten million	63	139	170	165	131
Gross impaired assets	285	321	357	426	382
Past due loans not shown as impaired assets					
Impaired assets do not include loans accruing interest which are in arrears 90 days or more where the loans are well secured. Interest revenue continues to be recognized in the balance sheet. The value of past due loans	324	205	182	130	197
Interest income forgone on impaired assets during the period					
Net interest charged but not recognized in the income statement	7	11	18	23	28
Net interest charged and recognized in the income statement	10	9	14	13	18
Analysis of movements in impaired assets					
Balance at the beginning of the period	321	357	426	382	634
Recognition of new impaired assets and increases in previously recognized impaired assets	308	395	571	588	370
Impaired assets written off during the period	(106)	(149)	(133)	(152)	(152)
Impaired assets which have been realized or restated as performing assets and impaired assets where the value of the security held has been realized	(238)	(282)	(507)	(392)	(470)
Balance at the end of the period	285	321	357	426	382
Gross impaired assets as a percentage of gross loans and advances (%)	0.21	0.25	0.30	0.37	0.36
Gross impaired assets & 90 days past due assets as a percentage of gross loans and advances (%)	0.46	0.41	0.45	0.48	0.54

Credit impairment charge

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

Approximately 66% of ANZ New Zealand's impaired assets are covered by collateral security generally comprising real estate assets. ANZ New Zealand adopts loan recovery processes that aim to maximize the realizable value of this security in order to reduce write-offs and increase the recoveries achievable for ANZ New Zealand and its customers. Individual recovery strategies are reviewed regularly to ensure they remain appropriate for the current and forecast business environment and the respective property markets.

The credit impairment charge increased $46 million, or 84%, from a charge of $55 million at September 30, 2018, to a charge of $101 million at September 30, 2019. The collective provision charge at September 30, 2019 increased $77 million from a release of $45 million at September 30, 2018, to a charge of $32 million at September 30, 2019, due to a lower level of releases in the CommAgri business.

The individual provision charge at September 30, 2019 decreased $31 million from $100 million at September 30, 2018, to $69 million at September 30, 2019, due to fewer new provisions raised in the Institutional business. On adoption of NZ IFRS 9 on October 1, 2018, ANZ New Zealand increased the collective provision by $72 million.

The following table sets forth details of ANZ New Zealand's provisions for impaired assets for the periods indicated:

				As at September 30,	
NZ$ millions (unless otherwise stated)	2019	2018	2017	2016	2015
Collective provision					
Balance at the beginning of the period	454	427	471	457	451
(Credit) / Charge to income statement	32	-45	(44)	14	6
Balance at the end of the period	486	382	427	471	457
Individual provision					
Balance at the beginning of the period	130	152	151	154	215
Charge to income statement	69	100	106	136	68
Recoveries	23	30	31	25	29
Bad debts written off	(106)	(149)	(133)	(152)	(152)
Discount unwind	(8)	(3)	(3)	(12)	(6)
Balance at the end of the period	108	130	152	151	154
The provision for impairment expressed as a percentage of gross impaired assets less interest reserved (%):					
Individual provisions	37.76	40.63	42.58	35.45	40.31
Total provisions	208.29	160.00	162.18	146.01	159.95
Collective provision for impairment expressed as a percentage of credit risk-weighted exposures (%)	0.59	0.54	0.60	0.65	0.66

(1) As NZ IFRS 9 was effective for the ANZ New Zealand Group from October 1, 2018, a transition adjustment of $72 million was applied to the Collective provision as at October 1, 2018. The Collective provision as at March 31, 2018 and for previous financial years has not been restated.

Loan quality

ANZ New Zealand maintains a systematic, continuous approach to the collection of loan arrears, and it issues notices of arrears or defaults in terms detailed in policies and procedures. For purposes of loan quality, ANZ New Zealand distinguishes between commercial loans and other (including residential mortgage) loans. ANZ New Zealand generally classifies commercial loans and housing loans as either performing, impaired or, in some cases, restructured assets.

ANZ New Zealand monitors consumer loan quality by independently verifying arrears and producing and distributing detailed credit performance reports to management. In addition, ANZ New Zealand closely examines the trends on arrears of various products within the portfolio to ensure measures are taken to correct and control any adverse trends that may be identified. ANZ New Zealand manages commercial loans through a watch and control list process pursuant to detailed policies and procedures. Secured impaired assets and larger unsecured impaired assets are managed individually and are subject to continuous review of recovery strategy and the adequacy of provisioning levels.

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

ANZ New Zealand's individual provisioning policy varies depending on the category of lending provided. ANZ New Zealand raises an individual provision on non-accrual loans based on expected security realization values less selling costs.

Non-accrual loans

The following table sets forth ANZ New Zealand's impaired assets and details of individual provisions for credit impairment for the dates indicated:

				As at September 30,	
NZ$ millions, unless otherwise stated	2019	2018	2017	2016	2015
Gross balances of impaired assets					
with individual provisions set aside	258	298	334	401	368
without individual provisions set aside	27	23	23	25	14
Gross impaired assets	285	321	357	426	382
Individual provision for credit impairment	108	130	152	151	154
Net impaired assets	177	191	205	275	228
Net impaired assets as a percentage of gross loans and advances (%)	0.13	0.15	0.17	0.24	0.21

Past due loans

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

				As at September 30,	
NZ$ millions	2019	2018	2017	2016	2015
Gross loans past due not subject to individual provision[1]	324	205	182	130	197
Gross impaired assets	285	321	357	426	382
Total past due loans	609	526	539	556	579

(1) Despite the arrears of such loans, an assessment of the value of the security, including mortgage insurance in the case of residential loans, indicates that principal and interest should be recovered in full.

Provisions for credit impairment

The following table sets forth details of ANZ New Zealand's provision for credit impairment on its loan portfolio and other assets for the periods indicated:

			Financial year ended September 30,		
NZ$ millions, unless otherwise stated	2019	2018	2017	2016	2015
Provision for credit impairment					
Balance at the beginning of the period	584	579	622	611	666
Net increase in provisions (see (i) below)	101	55	62	150	74
Bad debts recovered	23	30	31	25	29
Reversal of individual provisions as a result of bad debt write-offs (see (ii) below)	(106)	(149)	(133)	(152)	(152)
Discount unwind	(8)	(3)	(3)	(12)	(6)
Balance at end of the period	594	512	579	622	611

(1) As NZ IFRS 9 was effective for the ANZ New Zealand Group from October 1, 2018, a transition adjustment of $72 million was applied to the Collective provision as at March 31, 2019. The Collective provision as at March 31, 2018 and for previous financial years has not been restated.

Net movement in provision by industry category

The following table sets forth details of ANZ New Zealand's net movement in provision by industry category for the periods indicated:

NZ$ millions	2019	2018	2017	As at September 30, 2016	2015
Collective provision	32	(45)	(44)	14	6
Agriculture	18	16	(9)	33	(5)
Forestry and fishing, agriculture services	1	(1)	-	3	2
Manufacturing	(2)	(19)	39	6	2
Electricity, gas, water and waste services	-	-	(1)	-	-
Construction	2	2	1	3	5
Wholesale trade	(2)	(2)	10	1	(2)
Retail trade and accommodation	6	(6)	1	37	2
Transport, postal and warehousing	-	2	-	3	-
Finance and insurance services	(5)	56	-	-	1
Public administration and safety	-	-	-	1	-
Rental, hiring & real estate services	-	1	(12)	(3)	1
Professional, scientific, technical, administrative and support services	3	1	-	1	1
Households	50	50	51	48	45
Other	(2)	-	26	3	16
Net movement in provisions	101	55	62	150	74

Individual provisions as a result of bad debt write-offs by industry category

The following table sets forth details of ANZ New Zealand's reversal of individual provisions as a result of bad debt write-offs by industry category for the periods indicated:

NZ$ millions	2019	2018	2017	As at September 30, 2016	2015
(ii) Reversal of individual provisions as a result of bad debt write-offs by industry category:					
Agriculture	(16)	(9)	(5)	(16)	(3)
Forestry and fishing, agriculture services	(1)	-	(2)	(3)	(2)
Manufacturing	(8)	(4)	(14)	(9)	(4)
Electricity, gas, water and waste services	-	-	-	(1)	-
Construction	(2)	(3)	(2)	(4)	(9)
Wholesale trade	(1)	(3)	(3)	(1)	(1)
Retail trade and accommodation	(8)	(4)	(13)	(16)	(5)
Transport, postal and warehousing	(1)	(1)	(3)	(6)	(13)
Finance and insurance services	(1)	(20)	-	-	(1)
Public administration and safety	-	-	-	(1)	(1)
Rental, hiring & real estate services	-	(3)	(1)	(9)	(8)
Professional, scientific, technical, administrative and support services	(1)	(1)	(2)	(2)	(4)
Households	(66)	(72)	(73)	(80)	(80)
Other	(1)	(29)	(15)	(4)	(21)
Total reversal of individual provisions	(106)	(149)	(133)	(152)	(152)

Total provisions by industry

The following table provides a breakdown by category of ANZ New Zealand's total provisions for doubtful debts on loans and receivables:

	As at September 30, 2019		As at September 30, 2018	
	NZ$ millions	%	NZ$ millions	%
Collective provision	486	82	382	75
Agriculture	34	6	37	7
Forestry and fishing, agriculture services	1	-	1	-
Manufacturing	2	-	12	2
Electricity, gas, water and waste services	-	-	-	-
Construction	3	1	4	1
Wholesale trade	3	1	6	1
Retail trade and accommodation	7	1	8	2
Transport, postal and warehousing	2	-	3	1
Finance and insurance services	29	5	36	7
Public administration and safety	-	-	-	-
Rental, hiring & real estate services	4	1	4	1
Professional, scientific, technical, administrative and support services	2	-	-	-
Households	11	2	9	2
Other	10	1	10	2
Total provisions	594	100	512	100

Maturity distribution of borrowings

As at September 30, 2019, maturities of the ANZ New Zealand Group's total wholesale funding were as follows:

NZ$ millions	Extend 1 year or less	After 1 year through 5 years	After 5 years through 10 years	No maturity specified	Total
NZ$ Subordinated Notes	499	1,003	938	-	2,440
Euro Fixed Rate Notes	-	6,400	1,800	-	8,200
A$ Fixed Rate Notes	-	-	48	-	48
NZ$ Fixed Rate Notes	442	2,000	-	-	2,442
NZ$ Floating Rate Notes	743	535	-	-	1,278
US$ Fixed Rate Notes	2,395	5,162	1,793	-	9,350
US$ Floating Rate Notes	16	911	-	-	927
CHF Fixed Rate Notes	485	369	668	-	1,522
US$ Commercial Paper	2,461	-	-	-	2,461
Registered Certificates of Deposit	1,484	-	-	-	1,484
Other wholesale borrowings	246	-	-	-	246
Total wholesale funding	8,771	16,380	5,247	-	30,398

Average deposits

Details of the ANZ New Zealand Group's average deposits and short term borrowings are provided in the following table for the dates indicated:

	Financial year ended September 30,					
NZ$ millions (unless otherwise stated)	2019		2018		2017	
	Average balance	Average rate paid (%)	Average balance	Average rate paid (%)	Average balance	Average rate paid (%)
Term deposits[1]	54,349	3.29	50,175	3.34	45,277	3.35
Other deposits and borrowings	43,909	1.09	43,885	1.28	44,141	1.30
Commercial paper	2,585	1.47	2,841	2.04	4,325	2.82
Total[2]	100,843	2.28	96,901	2.37	93,743	2.36

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

(2) Where applicable, references to average balances and ratios calculated using average balances have been referenced to the table "Average balance sheet and interest income/expense" under "Management's Discussion and Analysis of Financial Condition and Results of Operation—Average balance sheet and interest income/expense". Unless otherwise stated, the methodology for calculating average balances is included in that table.

Certificates of deposit and other term deposit maturities

The following table shows the maturity profile of ANZ New Zealand Group's certificates of deposit and other term deposits. The amounts disclosed in the table represent undiscounted future principal cash flows:

	As at September 30, 2019			
NZ$ millions	3 months or less	Over 3 months through 12 months	Over 12 months	Total
Certificates of deposit	1,251	233	-	1,484
Other term deposits	24,476	26,905	3,731	55,112
Total certificates of deposit and other term deposits	25,727	27,138	3,731	56,596

Trading securities

The following table shows the book value and market value of ANZ New Zealand Group's holdings of trading securities as at the dates indicated:

NZ$ millions	As at September 30, 2019	2018	2017
Trading securities at book value			
Government securities	4,354	4,696	3,299
Other interest bearing securities	4,588	3,328	4,364
Total trading securities at book value	8,942	8,024	7,663

The following table summarizes the market value of ANZ New Zealand Group's holdings of trading securities as at September 30, 2019 according to their maturity dates:

NZ$ millions	As at September 30, 2019
Maturing in 1 year or less	1,685
Maturing between 1 and 5 years	5,643
Maturing after 5 years	1,614
Total trading securities	8,942

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

	As at September 30, 2019				
NZ$ millions (unless otherwise stated)	Maturing in 1 year or less	Maturing between 1 and 5 years	Maturing after 5 years	Total	Average rate (%)[1]
Government securities	749	2,057	1,548	4,354	1.86%
Other securities	936	3,586	66	4,588	2.15%
Total trading securities	1,685	5,643	1,614	8,942	2.01%

(1) Weighted average yield on outstanding trading securities at September 30, 2019 divided by the face value of outstanding trading securities at September 30, 2019.

Funding

The following table sets forth the ANZ New Zealand Group's funding for the dates indicated:

NZ$ millions	As at September 30, 2019	2018	2017
Deposits and short-term borrowings			
Unsecured			
Term deposits[1]	56,468	52,208	47,373
Other deposits and borrowings[2]	54,370	52,383	50,563
U.S. and Euro commercial paper	2,461	2,486	3,721
Total unsecured deposits and other borrowings	113,299	107,077	101,657
Secured			
Debenture stock	128	931	1,039
Total secured deposits	128	931	1,039
Debt issuances and long-term borrowings			
Unsecured			
Domestic	6,160	6,654	7,094
Offshore	15,587	14,552	12,187
Total unsecured debt issuances and long term borrowings	21,747	21,206	19,281
Secured			
Offshore - covered bonds	4,460	3,929	5,325
Total secured debt issuances and long term borrowings	4,460	3,929	5,325
Total funding	139,634	133,143	127,302
Represented by:			
Customer deposits	109,236	104,055	96,829
Wholesale	30,398	29,088	30,473
Total funding	139,634	133,143	127,302

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

(2) Principally customer deposits.

The following table sets forth the ANZ New Zealand Group's return on assets, return on equity and equity to assets ratio for the periods indicated[1]:

(%)	Financial year ended September 30, 2019	2018	2017	2016	2015
Return on average total assets[2]	1.10	1.23	1.12	0.98	1.29
Equity to assets ratio[3]	8.34	8.32	8.22	8.12	8.68

(1) Where applicable, ratios calculated using average balances have been referenced to the table "Average balance sheet and interest income/expense" under "Management's Discussion and Analysis of Financial Condition and Results of Operation—Average balance sheet and interest income/expense". Unless otherwise stated, the methodology for calculating average balances is included in that table.

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

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

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

The following table sets forth details of the ANZ New Zealand Group's U.S. and Euro commercial paper short-term borrowings as at the dates indicated:

NZ$ millions (unless otherwise stated)	As at September 30, 2019	2018	2017
Balance at end of the year (including accrued interest)	2,461	2,486	3,721
Maximum amount outstanding at any month end during the year	3,403	4,567	7,466
Average amount outstanding during the year	2,585	2,840	4,325
Weighted average interest rate during the year (%)[1]	1.47	2.04	2.82

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

Australia and New Zealand Banking Group Limited

The following information regarding the ANZ New Zealand Group's ultimate parent company, ANZBGL, is presented solely for reference. ANZBGL is not providing a guarantee or any other type of credit support of the ANZ NZ Notes or the ANZNIL Notes.

Overview

ANZBGL and its subsidiaries (together, the "ANZ Group"), which began its Australian operations in 1835 and its New Zealand operations in 1840, is one of the four major banking groups headquartered in Australia. ANZBGL is a public company limited by shares incorporated in Australia and was registered in the State of Victoria on July 14, 1977. ANZBGL's registered office is located at Level 9, 833 Collins Street, Docklands, Victoria, 3008, Australia and the telephone number is +61 3 9683 9999. ANZBGL's Australian Business Number is ABN 11 005 357 522.

The ANZ Group provides a broad range of banking and financial products and services to retail, small business, corporate and institutional customers. Geographically, operations span Australia, New Zealand, a number of countries in the Asia-Pacific region, the United Kingdom, France, Germany and the United States.

As of September 30, 2019, the ANZ Group had total assets of A$981.1 billion and shareholders' equity excluding non-controlling interests of A$60.8 billion. In terms of total assets among banking groups, the ANZ Group ranked first in Australia[3] as of September 30, 2019, and first in New Zealand[4] as of September 30, 2019.

ANZBGL's principal ordinary share listing and quotation is on the ASX. Its ordinary shares are also quoted on the New Zealand Stock Exchange (the "NZX"). At the close of trading on September 30, 2019, ANZBGL had a market capitalization of A$80.8 billion, which ranked among the top six largest companies listed on the ASX[5].

Business Model

The ANZ Group's business model primarily consists of raising funds through customer deposits and the wholesale debt markets and lending those funds to customers. In addition, the ANZ Group operates a Markets business which earns revenue from sales, trading and risk management activities. The ANZ Group also provides payments and clearing solutions. The ANZ Group currently earns revenue from its wealth activities through the provision of insurance, superannuation and funds management services, which are largely classified as discontinued operations.

The ANZ Group's primary lending activities are personal lending covering residential home loans, credit cards and overdrafts, and lending to corporate and institutional customers.

The ANZ Group's income is derived from a number of sources, primarily:

(1) Net interest income – represents the difference between the interest income the ANZ Group earns on its lending activities and the interest paid on customer deposits and wholesale funding;

(2) Net fee and commission income – represents fee income earned on lending and non-lending related financial products and services. It includes net funds management income previously reported under net funds management and insurance income;

(3) Net income from insurance business – represents income earned from the provision of insurance solutions;

(4) Share of associates' profits – represents the ANZ Group's share of the profit of an entity over which the ANZ Group has significant influence but not control; and

(5) Other income – includes revenue generated from sales, trading and risk management activities in the Markets business, net foreign exchange earnings and gains and losses from economic and revenue and expense hedges.

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[3] *Source: Commonwealth Bank of Australia results announcement for the fiscal year ended June 30, 2019; National Australia Bank results announcement for the fiscal year ended September 30, 2019; Westpac Banking Corporation results announcement for the fiscal year ended September 30, 2019.*
[4] *Source: Reserve Bank of New Zealand Bank Financial Strength Dashboard for the year ended September 30, 2019.*
[5] *Source: IRESS.*

Strategy

The ANZ Group's strategy is focused on improving the financial wellbeing of its customers; having the right people who listen, learn and adapt; putting the best tools and insights into their hands; and focusing on those few things that it believes really add value to customers and doing them right the first time.

<table>
<tr><th colspan="8">Purpose
The ANZ Group's purpose is to shape a world where people and communities thrive</th></tr>
<tr><th>Strategic Imperatives</th><th colspan="6">Strategy</th><th>Target Outcomes</th></tr>
<tr><td>Create simpler, better capitalized, better balanced bank</td><td colspan="6">Improving the financial wellbeing of customers...</td><td>Improve the financial wellbeing of its customers</td></tr>
<tr><td>Build a superior experience for its people and customers in order to compete in the digital age</td><td colspan="2">Looking to save for, buy and own a home</td><td colspan="2">Looking to start, buy and grow a business</td><td colspan="2">Looking to move capital and goods around the region</td><td>Deliver decent returns for the its shareholders
• target growth
• low cost
• capital efficient</td></tr>
<tr><td>Focus its efforts where the ANZ Group can carve out a winning position</td><td colspan="3">With people who listen, learn and adapt</td><td colspan="3">With the best tools and insights</td><td>Resilient, adaptable &
capable workforce</td></tr>
<tr><td>Drive a purpose and values led transformation of the Bank</td><td colspan="6">With flexible, resilient, digital infrastructure that supports great customer experience
at lower cost</td><td>Improve housing, environment and financial wellbeing outcomes for the community</td></tr>
</table>

Principal activities of the ANZ Group

The ANZ Group operates on a divisional structure with five continuing divisions: Australia Retail and Commercial, Institutional, New Zealand, Pacific and Technology, Services & Operations ("TSO") and Group Centre.

The divisions reported below are consistent with operating segments as defined in AASB 8 *Operating Segments* and with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

As of September 30, 2019, the principal activities of the five continuing divisions were:

Australia Retail and Commercial

The Australia Retail and Commercial division comprises the following business units.

- Retail provides products and services to consumer customers in Australia via the branch network, mortgage specialists, contact centers and a variety of self-service channels (internet banking, phone banking, ATMs, website, ANZ share investing and digital banking) and third party brokers in addition to financial planning services provided by salaried financial planners.

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

Institutional

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

- Transaction Banking provides working capital and liquidity solutions including documentary trade, supply chain financing, commodity financing as well as cash management solutions, deposits, payments and clearing.

- Loans & Specialized Finance provides loan products, loan syndication, specialized loan structuring and execution, project and export finance, debt structuring and acquisition finance and corporate advisory.

- Markets provides risk management services on foreign exchange, interest rates, credit, commodities and debt capital markets in addition to managing the ANZ Group's interest rate exposure and liquidity position across Franchise Sales, Franchise Trading and Balance Sheet subdivisions.

New Zealand

See "Overview" in this Offering Memorandum.

Pacific

The Pacific division provides products and services to retail customers, small to medium-sized enterprises, institutional customers and governments located in the Pacific Islands. Products and services include retail products provided to consumers, traditional relationship banking and sophisticated financial solutions provided to business customers through dedicated managers.

TSO and Group Centre

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

Overview of the New Zealand Banking Industry

The RBNZ publishes a semi-annual Financial Stability Report, in which it assesses and reports on the soundness and efficiency of the New Zealand financial system. The following section is an excerpt from the RBNZ Financial Stability Report that was released on November 27, 2019 (the "RBNZ Report"). The information in this section has been accurately reproduced and as far as the ANZ New Zealand Group is aware and able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading. For more information, please see the full RBNZ Report, which is available from the RBNZ's website at: https://www.rbnz.govt.nz/financial-stability/financial-stability-report. The information in the RBNZ Report is not necessarily up to date as of the date of this Offering Memorandum. Additionally, it is not incorporated by reference herein and does not form part of this Offering Memorandum.

According to the RBNZ Report, the financial system as a whole remains resilient to a broad range of economic risks. The banking sector maintains buffers of capital and liquidity over current requirements and has strong profitability. However, some parts of the life insurance and credit union sectors have less resilience and are facing current challenges. The RBNZ has a number of regulatory and supervisory initiatives underway to enhance the long-term resilience and performance of the financial system.

International risks to the financial system have increased in the past six months. Global growth has slowed amid continued uncertainty about the outlook for world trade. This has led to significant reductions in long-term interest rates, including in New Zealand. Lower interest rates have helped to cushion the New Zealand economy and borrowers from the effects of weaker global growth. However, prolonged low interest rates could exacerbate pre-existing debt and asset imbalances in the economy, threatening future financial stability. Low interest rates may also reduce profitability for some financial institutions, and is weakening some life insurers' solvency positions.

Household lending risks have **stabilised…**

Indebtedness in the household sector is high, and some households face particularly large debt burdens. High debt leaves borrowers exposed to cash flow stress in the event that interest rates rise or incomes fall. Banks could experience significant losses if a large number of borrowers became stressed in an economic downturn, particularly if this were accompanied by a significant fall in house prices. Restrictions on high loan-to-value ratio (LVR) mortgages are in place to limit the amount of high-risk lending and thereby reduce the vulnerability of banks from a severe downturn affecting the household sector.

The risk of large housing losses has reduced somewhat over the past three years. House price inflation has slowed, particularly in Auckland, reducing the likelihood of a future sharp house price fall. And bank mortgage lending standards have tightened somewhat, reducing the volume of loans with a higher risk of defaulting in a downturn. As the risk has eased, there has been less need for LVR restrictions, allowing for a gradual easing in the policy.

…but vulnerabilities may increase in the low interest rate environment.

However, there are early signs that housing lending risk may be increasing again. House price growth has strengthened in recent months, even with high price-to-income ratios, and it is unclear how long this strength will persist. There are also early signs that banks are easing mortgage lending standards in response to the low interest rate environment. Given the uncertainty around the future trend in housing lending risk, it would not be appropriate to ease LVR restrictions further at this point. We will continue to review LVR restrictions, and will adjust them in line with changes in the overall risk environment.

The dairy sector remains vulnerable.

Despite above-average dairy commodity prices and reasonable profitability for the dairy sector as a whole, a significant share of the dairy sector remains financially vulnerable. Progress has been made by some borrowers in reducing debt and restoring balance sheet sustainability. However, the most indebted farms have struggled to achieve profitability and repay debt. A significant share of dairy loans are still being closely monitored by banks, and the share of loans that are non-performing has increased. The sector faces longer-term cost challenges in reducing its environmental impacts and many farms have little resilience to weather another period of low commodity prices.

More work is required to improve long-term bank resilience.

Banks maintain capital buffers to provide resilience to a wide range of risks. At current capital levels, banks are resilient to most cyclical risks. However, the RBNZ is working to improve the longer-term resilience of the financial system to severe risks, to reflect the high economic and social costs of financial crises. The Bank has proposed higher capital requirements for banks to ensure that they have sufficient capital to withstand a one-in-200 year event. Final decisions on the bank capital review will be announced on 5 December.

Long-term resilience also requires that banks have good governance and strong risk management practices. Recent reviews of the culture and conduct of banks and life insurers have highlighted areas where these processes need to be improved. The need to improve risk management processes has been reinforced over the past year by the disclosure of errors by a number of banks in the calculation of capital and liquidity ratios, which in some cases have gone undetected for a number of years. The RBNZ is engaging with banks to ensure that they strengthen their own assurance processes and controls. Disclosure of compliance breaches will be enhanced through a new breach-reporting framework, with material breaches reported on a dedicated page on the RBNZ's website. We will also be adopting a more intensive supervisory approach, which will involve greater scrutiny of institutions' compliance.

Some insurers have low solvency **buffers…**

The RBNZ sets minimum solvency requirements for insurers to ensure they can meet their future obligations to policyholders with a high degree of certainty, and insurers maintain voluntary buffers over these minimum requirements. However, reported solvency ratios have declined for many life and general insurers, leaving low buffers over minimum requirements. Recent falls in long-term interest rates are putting further pressure on solvency ratios for some life insurers. Affected insurers are preparing plans to increase their solvency ratios and are subject to enhanced supervisory engagement. Solvency requirements for insurers will be reviewed alongside the upcoming review of the Insurance (Prudential Supervision) Act 2010.

…and pressures are emerging for some credit unions.

Pressures are also emerging for some credit unions with a number operating at a loss. Some have struggled with low economies of scale and have faced significant cost overruns in updating core banking systems. Several credit unions have merged over the past year in order to boost economies of scale, and further consolidation in the sector is likely.

Board of Directors of ANZ New Zealand

Composition of Board of Directors

At the date of this Offering Memorandum, the members of ANZ New Zealand's Board are as follows:

Name	Age	Position
Rt Hon Sir John Key	58	Independent Non-Executive Director and Chair, ANZ New Zealand and Independent Non-Executive Director, ANZBGL
Shayne Elliott	56	Non-Executive Director, ANZ New Zealand and Executive Director and Chief Executive Officer, ANZBGL
Michelle Jablko	47	Non-Executive Director, ANZ New Zealand and Chief Financial Officer, ANZBGL
Antonia Watson	50	Executive Director and CEO of ANZ New Zealand
Antony Carter	62	Independent Non-Executive Director
Joan Withers	66	Independent Non-Executive Director
Mark Verbiest	61	Independent Non-Executive Director
Alison Gerry	55	Independent Non-Executive Director

For the purposes of this Offering Memorandum, the business address of each member of the Board is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand.

As at the date of this Offering Memorandum, no conflicts of interest and no potential conflicts of interest exist between any duties owed to ANZ New Zealand by the members of the Board listed above and their private interests and/or other duties outside of the ANZ New Zealand Group. In respect of potential conflicts of interest that may arise in the future, ANZ New Zealand has processes for the management of such conflicts such that ANZ New Zealand does not expect any actual conflict of interest would arise.

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

Rt Hon Sir John Key. Sir John Key was appointed as an independent Non-Executive Director of the Board of ANZ New Zealand on October 18, 2017 and succeeded Mr. John Judge as Chair on January 1, 2018. Sir John brings considerable experience in international banking and knowledge of the Asia-Pacific region to the Board. Sir John Key was also appointed to the Board of Directors of ANZBGL on February 28, 2018. He is also a Director of Air New Zealand Limited and Palo Alto Networks Inc. 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 Bankers Trust New Zealand.

Shayne Elliott. Mr. Elliott was appointed a Non-Executive Director of the Board of ANZ New Zealand on August 11, 2009. Mr. Elliott was appointed Director and Chief Executive Officer of ANZBGL on January 1, 2016. He formerly held the following positions with ANZBGL: Chief Financial Officer from June 2012; Chief Financial Officer Designate from March 2012; and Chief Executive Officer, Institutional from June 2009 to March 2012. Before joining ANZBGL, Mr. Elliott spent more than 20 years at Citigroup and was Head of Business Development for EFG Hermes, the largest investment bank in the Middle East. Mr. Elliott is also a Director of the Financial Markets Foundation for Children and a member of both the Australian Banking Association Council and the Business Council of Australia.

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

Antonia Watson. Ms. Watson was appointed CEO and Executive Director of the Board of ANZ New Zealand on December 18, 2019. Ms. Watson had been Acting CEO of ANZ New Zealand since May 31, 2019. Prior to her appointment as Acting CEO, Ms. Watson held roles as Managing Director, Retail & Business Banking and as Chief Financial Officer, of ANZ New Zealand. Ms. Watson spent 13 years at Morgan Stanley, where she was General Manager of their business services and technology centre in Budapest and held various Finance roles in Sydney and London. Ms. Watson qualified as a chartered accountant at KPMG and holds a Bachelor of Commerce with Honours from the University of Otago. Ms. Watson is also a director of ANZ New Zealand Investments Limited and ANZ Investment Services (New Zealand) Limited and is a member of the New Zealand Bankers Association's governing body.

Antony Carter. Mr. Carter was appointed as an independent Non-Executive Director of the Board of ANZ New Zealand on August 26, 2011. Mr. Carter was Managing Director of Foodstuffs (Auckland) and Foodstuffs (New Zealand), New Zealand's largest retail organization, from 2001 to 2010. Mr. Carter has extensive experience in retailing, having joined Foodstuffs in 1994. Prior to this he owned and operated several Mitre 10 hardware stores and was a Director and later Chair of Mitre 10 New Zealand Limited. Mr. Carter is Chair of Fisher & Paykel Healthcare Corporation Limited and T R Group Limited and a Director of Datacom Group Limited and Vector Limited.

Joan Withers. Mrs. Withers was appointed as an independent Non-Executive Director of the Board of ANZ New Zealand on July 1, 2013. Mrs. Withers has an extensive career in management and governance roles in New Zealand, being the former Chair of Television New Zealand and Mercury NZ Limited, and former CEO of Fairfax Media and The Radio Network. Mrs. Withers is also the Chair of The Warehouse Group Limited and a Director of On Being Bold Limited and Sky Network Television Limited. Mrs. Withers has an MBA from the University of Auckland.

Mark Verbiest. Mr. Verbiest was appointed as an independent Non-Executive Director of the Board of ANZ New Zealand on October 10, 2013. Mr. Verbiest has extensive experience in telecommunications, corporate governance and the digital economy. Mr. Verbiest brings a wealth of knowledge gained from a variety of sectors, including SOEs, Government bodies and the private sector. Mr. Verbiest is currently Chair of Freightways Limited, Willis Bond General Partner Limited and Willis Bond Capital Partners Limited, Bear Fund NZ Limited and Meridian Energy Limited. Mr. Verbiest is also a member of the New Zealand Treasury Board.

Alison Gerry. Ms. Gerry was appointed as an independent Non-Executive Director of the Board of ANZ New Zealand on October 18, 2019. Ms. Gerry has extensive experience in the financial services and infrastructure sectors. In her executive career, Ms. Gerry worked for both corporates and for financial institutions in Australasia, Asia and London in trading, finance and risk roles. Ms. Gerry is a Chartered Fellow of the Institute of Directors. Ms. Gerry is Chair of Sharesies Limited and is also a Director of Infratil Limited, Wellington International Airport Limited, On Being Bold Limited, Asteron Life Limited and Vero Insurance New Zealand Limited.

Remuneration of ANZ New Zealand directors

The directors were paid an aggregate of $1,109,179, $1,127,324 and $950,992 in directors' fees for the financial years ended September 30, 2019, 2018 and 2017, respectively.

Related party transactions

As permitted under New Zealand law, ANZ New Zealand extends loans to directors and executives. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. For further information, refer to Note 27 of the 2019 ANZ New Zealand Financial Statements.

Board committees

To assist in the execution of its responsibilities, the Board has established committees, including an Audit Committee, a Human Resources Committee, a Risk Committee and a Conduct and Culture Committee, each with a charter, to assist and support the Board in the conduct of its duties and obligations. The Chair of the ANZ New Zealand Board is a member of each committee.

Audit Committee — The purpose of the Audit Committee is to assist the Board by ensuring the integrity of ANZ New Zealand's financial controls, reporting systems and internal audit standards, and providing oversight and review of:

(a) the financial reporting principles and policies, controls, systems and procedures applicable to ANZ New Zealand and its subsidiaries;

(b) compliance of ANZ New Zealand and its subsidiaries with the financial reporting, prudential reporting and audit requirements of the ANZ Group;

(c) the effectiveness of ANZ New Zealand's internal control and risk management framework;

(d) the work and internal audit standards of Internal Audit;

(e) the integrity of ANZ New Zealand and its subsidiaries' financial statements and the independent audit thereof and compliance with relevant New Zealand legal and regulatory requirements thereof;

(f) any due diligence procedures; and

(g) prudential supervision procedures and other regulatory requirements to the extent relating to financial reporting.

In carrying out its responsibilities and duties, the Audit Committee will aim to seek fair customer outcomes and financial market integrity in its deliberations.

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

Human Resources Committee — This Committee is responsible for reviewing and, where necessary, making recommendations to the Board in respect of remuneration policies and practices, including the remuneration arrangements relating to the Chair, Directors, Chief Executive, and nominated senior management and executive officers and the remuneration structures of all other classes of persons covered by the ANZ Remuneration Policy.

The Human Resources Committee will also assist the Board by reviewing and monitoring the conduct of ANZ New Zealand with respect to talent and culture matters, including but not limited to employee engagement, leadership capability and succession, culture and diversity.

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

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

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

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

(c) assist the Board by providing objective non-executive oversight of the implementation by management of ANZ New Zealand's risk and compliance management frameworks and its related operation. This will enable an institution-wide view to be taken of ANZ New Zealand's current and future risk position relative to its risk appetite and capital strength; and

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

In carrying out its responsibilities and duties, the Risk Committee will aim to seek fair customer outcomes and financial market integrity in its deliberations.

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

Conduct and Culture Committee — The purpose of the Conduct and Culture Committee is to oversee:

(a) the implementation of actions contained in ANZ New Zealand's response to the recommendations in the FMA and the RBNZ reports relating to conduct and culture and incentives, including but not limited to the FMA and the RBNZ review of conduct and culture industry report published on November 5, 2018 and the FMA and the RBNZ Review of conduct and culture ANZ New Zealand specific report received on November 28, 2018;

(b) risks relating to poor conduct within ANZ New Zealand; and

(c) matters relating to ANZ New Zealand's organizational culture.

The Conduct and Culture Committee will also actively encourage and promote good conduct within ANZ New Zealand. For more information, see "Regulation and Supervision—New Zealand Regulatory Developments—FMA and RBNZ conduct and culture review" and "Regulation and Supervision—New Zealand Regulatory Developments—FMA review of sales incentives structures in the New Zealand banking industry" in this Offering Memorandum.

In carrying out its responsibilities and duties, the Conduct and Culture Committee will aim to seek fair customer and community outcomes in its deliberations.

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

The Board intends to appoint Ms. Watson to be a member of the Conduct and Culture Committee at its next Board meeting.

Board practices

Currently, ANZ New Zealand's Board consists of eight directors, five of whom are independent non-executive directors. The Board includes two executives of ANZBGL. Board composition is reviewed when a vacancy arises or if it is considered that the Board would benefit from the services of a new director, given the existing mix of skills and experience of the Board.

Under ANZ New Zealand's Conditions of Registration, no appointment of any director or chief executive officer or Chair shall be made to the Board unless a copy of the curriculum vitae of the proposed appointee has been provided to the RBNZ and the RBNZ has advised that it has no objection to the appointment. The Conditions of Registration require that the Chair and at least half of the directors on the Board be independent.

The Board collectively and each director individually has the right to seek independent professional advice at ANZ New Zealand's expense.

In accordance with the New Zealand Companies Act 1993, directors must keep the Board advised, on an on-going basis, of any interest that could potentially conflict with ANZ New Zealand's own interests. A director who is interested in a transaction may attend meetings and vote on a matter relating to the transaction. However, the Board has adopted a guideline whereby a director with an interest in a transaction should not be present during any discussions, and should not vote on any matter pertaining to that particular transaction.

ANZ New **Zealand's** constitution

ANZ New Zealand's constitution is available online on the searchable register at https://companies-register.companiesoffice.govt.nz/. No information on that website forms part of or is incorporated by reference in this Offering Memorandum. Under ANZ New Zealand's constitution, the Board holds all necessary powers for the management of the business and operation of the company. In particular, there are no restrictions in ANZ New Zealand's constitution on ANZ New Zealand borrowing or providing a guarantee.

The Board has the power to issue shares in different classes and on different terms and conditions. Under the constitution, the Board is expressly authorized to issue further shares ranking equally with, or in priority to, existing shares, whether as to voting rights or distributions or otherwise and such issue is not deemed to be an action affecting the rights attached to the existing shares. However, where ANZ New Zealand takes action which affects the rights attached to shares (other than by way of issue of further shares ranking equally with, or in priority to, existing shares) such action must be approved by special resolution of each affected interest group. There are no restrictions in ANZ New Zealand's constitution on changes in capital, rights to own securities or restrictions on foreign shareholders.

There is no shareholding qualification for directors of ANZ New Zealand, and no mandatory retirement age. The Board has the power to fix each director's remuneration and ANZ New Zealand shall indemnify every director or employee out of the assets of ANZ New Zealand to the maximum extent permitted by law. Directors can be appointed and removed by the shareholders of ANZ New Zealand, although the Board has the power at any time to also appoint directors.

Under the New Zealand Companies Act 1993, directors who are interested in a transaction of ANZ New Zealand are required to disclose their interest. Failure to disclose this interest will not affect the validity of the transaction or the ability of the director to attend and vote at the relevant board meeting, but the director can be personally liable and if ANZ New Zealand does not receive fair value under the transaction, the transaction may be voided within three months of its disclosure to all shareholders of ANZ New Zealand.

In regard to shareholders, the power to:

- alter, revoke or adopt a new constitution,
- approve a major transaction, or
- approve an amalgamation, put ANZ New Zealand into liquidation or apply for the removal of ANZ New Zealand from the register of companies,

must be exercised by special resolution of the shareholders under the New Zealand Companies Act 1993. All other powers reserved to shareholders may be exercised by an ordinary resolution of shareholders. Resolutions can be passed at a meeting of shareholders or pursuant to a written resolution in lieu of a meeting.

Board of Directors of ANZNIL

At the date of this Offering Memorandum, the members of ANZNIL's Board of Directors are as follows:

Name	Age	Principal Outside Activities
Stewart Taylor	47	Chief Financial Officer, ANZ New Zealand
Penelope Dell	36	Managing Director of the New Zealand Branch of ANZBGL and Head of Asset and Liability Management, ANZ New Zealand

For the purposes of this Offering Memorandum, the business address of each member of the Board of Directors of ANZNIL is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand.

As at the date of this Offering Memorandum, no conflicts of interest and no potential conflicts of interest exist between any duties owed to ANZNIL by the members of its Board of Directors listed above and their private interests and/or other duties outside of ANZNIL. In respect of potential conflicts of interest that may arise in the future, ANZNIL has processes for the management of such conflicts such that ANZNIL does not expect any actual conflict of interest would arise.

Description of the Notes and the Guarantee

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

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

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

This section is only a summary

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

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

The Notes will be issued under the Fiscal Agency Agreement

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

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

The relevant Issuer may issue other series of debt securities

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

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

Amounts that the relevant Issuer may issue

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

The relevant Issuer intends to issue Notes from time to time, initially in an amount having the aggregate offering price specified on the cover of this Offering Memorandum. However, the relevant Issuer may issue additional

Notes in amounts that exceed the amount on the cover at any time, without the consent of the holders and without notifying the holders.

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

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

Guarantee

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

How the Notes and Guarantee rank against other debt

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

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

Principal amount, stated maturity and maturity

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

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

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

Currency of Notes

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

Types of Notes

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

Fixed Rate Notes

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

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

Floating Rate Notes

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

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

Original Issue Discount Notes

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

Information in the Final Terms

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

- the title of the Notes;
- the stated maturity;
- the Specified Currency or currencies for principal, premium and interest, if not U.S. dollars;
- the price at which the relevant Issuer originally issues the Note, expressed as a percentage of the principal amount, and the issue date;
- whether the Note is a Fixed Rate Note, a Floating Rate Note, an Original Issue Discount Note (which may be a Zero Coupon Note) or any combination of the foregoing;
- if the Note is a Fixed Rate Note, the yearly rate at which such Note will bear interest, if any, and the interest payment dates, if different from those stated below under "— Interest rates — Fixed Rate Notes", and the conditions, if any, under which each Note may convert into or be exchangeable for a Floating Rate Note;
- if the Note is a Floating Rate Note, the interest rate basis, which may be one of the three Base Rates described under "— Interest rates — Floating Rate Notes" below; any applicable index currency or Index

Maturity (each, as defined herein), Spread or Spread Multiplier or initial, maximum or minimum interest rate; the interest reset, determination, calculation and interest payment dates; the day count used to calculate interest payments for any period; and the Calculation Agent, all of which are described under "— Interest rates — Floating Rate Notes" below and the conditions, if any, under which each Note may convert into or be exchangeable for a Fixed Rate Note;

- if the Note is an Original Issue Discount Note, the yield to maturity;
- if applicable, the circumstances under which the Note may be redeemed at the relevant Issuer's option or repaid at the holder's option before the stated maturity, including any redemption commencement date, repayment date(s), redemption price(s) and redemption period(s), all of which are described under "— Redemption and repayment" below;
- the authorized denominations, if other than denominations of US$200,000, and multiples of US$1,000;
- the Depositary for the Note, if other than DTC, and any circumstances under which the holder may request the Note in non-global form, if the relevant Issuer chooses not to issue the Note in book-entry form only;
- the name of each offering Agent;
- the discount or commission to be received by the offering Agent or Agents;
- the net proceeds to the Issuer; and
- the names and duties of any co-agents, depositaries, Paying Agents, transfer agents, exchange rate agents or registrars for the Note.

Form of Notes

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

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

Interest rates

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

Fixed Rate Notes

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

Floating Rate Notes

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

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

Base Rates

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

- Federal Funds Rate;
- LIBOR; and/or
- SOFR.

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

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

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

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

- unless such Floating Rate Note is designated as a "Floating Rate/Fixed Rate Note," a "Fixed Rate/Floating Rate Note" or an "Inverse Floating Rate Note," or as having an addendum attached or having "other/additional provisions" apply, in each case relating to a different interest rate formula, such Floating Rate Note will be designated as a "Regular Floating Rate Note" and, except as described below or as specified in the applicable Note, will bear interest at the rate determined by reference to the applicable Base Rate (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any. Commencing on the first Interest Reset Date occurring after the issue date (the "initial Interest Reset Date"), the rate at which interest on such Regular Floating Rate Note shall be payable will be reset as at each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the issue date to the initial Interest Reset Date will be the initial interest rate;

- if such Floating Rate Note is designated as a "Floating Rate/Fixed Rate Note," then, except as described below or as specified in the applicable Note, such Floating Rate Note will bear interest at the rate determined by reference to the applicable Base Rate (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any. Commencing on the initial Interest Reset Date, the rate at which interest on such Floating Rate/Fixed Rate Note will be payable will be reset as at each Interest Reset Date; provided, however, that (x) the interest rate in effect for the period, if any, from the issue date to the initial Interest Reset Date will be the initial interest rate and (y) the interest rate in effect for the period commencing on the date specified in the applicable Final Terms (the "Fixed Rate Commencement Date") to the maturity date will be the fixed interest rate, if such rate is specified in the applicable Note and the applicable Final Terms or, if no such fixed interest rate is specified, the interest rate in effect thereon on the business day immediately preceding the Fixed Rate Commencement Date;

- if such Floating Rate Note is designated as a "Fixed Rate/Floating Rate Note," then, except as described below or as specified in the applicable Note and the applicable Final Terms, such Floating Rate Note will bear interest at the fixed rate specified in such Note from the issue date to the date specified in the applicable Final Terms (the "Floating Rate Commencement Date") and the interest rate in effect for the period commencing on such Floating Rate Commencement Date will be the rate determined by reference to the applicable Base Rate (x) plus or minus the applicable Spread, if any, and/or (y) multiplied by the applicable Spread Multiplier, if any, each as specified in such Note or the applicable Final Terms. Commencing on the first Interest Reset Date after such Floating Rate Commencement Date, the rate at which interest on such Fixed Rate/Floating Rate Note will be payable will be reset as at each Interest Reset Date;

- if such Floating Rate Note is designated as an "Inverse Floating Rate Note," then, except as described below or as specified in the applicable Note, such Floating Rate Note will bear interest at the fixed interest rate minus the rate determined by reference to the applicable Base Rate (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any; provided, however, that, unless otherwise specified in the applicable Note and the applicable Final Terms, the interest rate thereon will not be less than zero. Commencing on the initial Interest Reset Date, the rate at which interest on such Inverse Floating Rate Note will be payable will be reset as at each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the issue date to the initial Interest Reset Date will be the initial interest rate.

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

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

- by adding or subtracting a specified number of basis points, called the "Spread", with one basis point being 0.01%; or

- by multiplying the Base Rate by a specified percentage, called the "Spread Multiplier".

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

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

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

- a minimum rate-i.e., a specified lower limit that the actual interest rate in effect at any time may not fall below.

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

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

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

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

- for Floating Rate Notes that reset daily, each business day;

- for Floating Rate Notes that reset weekly, the Wednesday of each week;

- for Floating Rate Notes that reset monthly, the third Wednesday of each month;

- for Floating Rate Notes that reset quarterly, the third Wednesday of March, June, September and December of each year;

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

- for Floating Rate Notes that reset annually, the third Wednesday of one month of each year as specified in the applicable Final Terms.

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

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

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

For a SOFR Note, in relation to any interest period, the Interest Reset Date will be each U.S. Government Securities Business Day (defined below under "—Special Rate Calculation Terms") during such interest period, other than any U.S. Government Securities Business Day falling in the Suspension Period (defined below under "—Special Rate Calculation Terms") corresponding with such interest period.

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

- For Federal Funds Rate Notes, the Interest Determination Date relating to a particular Interest Reset Date will be the second business day before the Interest Reset Date.

- For LIBOR Notes, the Interest Determination Date relating to a particular Interest Reset Date will be the second London business day preceding the Interest Reset Date, unless the index currency is pounds sterling, in which case the Interest Determination Date will be the Interest Reset Date. An Interest Determination Date for a LIBOR Note is referred to as a "LIBOR Interest Determination Date".

- For SOFR Notes, the Interest Determination Date will be the U.S. Government Securities Business Day preceding the interest payment date by the number of U.S. Government Securities Business Days equal to the number of U.S. Government Securities Business Days in the Reset Period (defined below under "—Special Rate Calculation Terms"). An Interest Determination Date for a SOFR Note is referred to as a "SOFR Interest Determination Date".

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

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

- the tenth calendar day after the Interest Determination Date or, if that tenth calendar day is not a business day, the next succeeding business day; and

- the business day immediately preceding the interest payment date or the maturity date, whichever is the day on which the next payment of interest will be due.

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

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

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

- for Floating Rate Notes that reset quarterly, the third Wednesday of March, June, September and December of each year;

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

- for Floating Rate Notes that reset annually, the third Wednesday of the month specified in the applicable Final Terms.

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

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

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

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

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

All percentages resulting from any calculation relating to a Note will be rounded upward or downward, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one millionths of a percentage point rounded upward, e.g., 9.876541% (or .09876541) being rounded down to 9.87654% (or .0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or .0987655). All amounts used in or resulting from any calculation relating to a Floating Rate Note will be rounded upward or downward, as appropriate, to the nearest cent, in the case of U.S. dollars, or to the nearest corresponding hundredth of a unit, in the case of a currency other than U.S. dollars, with one-half cent or one-half of a corresponding hundredth of a unit or more being rounded upward.

In determining the Base Rate that applies to a Floating Rate Note during a particular interest period, the Calculation Agent may obtain rate quotes from various banks or dealers active in the relevant market. Those reference banks and dealers may include the Calculation Agent itself and its affiliates, as well as any underwriter, dealer or agent participating in the distribution of the relevant Floating Rate Notes and its affiliates, and they may include affiliates of the relevant Issuer.

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

(i) *Benchmark Replacement*. If the relevant Issuer or its designee determines that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred prior to the Reference Time in respect of any determination of the Benchmark on any date, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of such determination on such date and all determinations on all subsequent dates.

(ii) *Benchmark Replacement Conforming Changes*. In connection with the implementation of a Benchmark Replacement, the relevant Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes from time to time.

(iii) *Decisions and Determinations*. Any determination, decision or election that may be made by the relevant Issuer or its designee pursuant to this subsection "Benchmark Replacement for LIBOR Notes where the index currency is U.S. dollars" including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error, may be made in the relevant Issuer's or its designee's sole discretion, and, notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from any other party.

Solely for the purposes of this "Benchmark Replacement for LIBOR Notes where the index currency is U.S. dollars" subsection:

"***Benchmark***" means, initially, LIBOR where U.S. dollars is the index currency; *provided* that if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to LIBOR where U.S. dollars is the index currency or the then-current Benchmark, then "Benchmark" means the applicable Benchmark Replacement.

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

1. the sum of: (a) Term SOFR and (b) the Benchmark Replacement Adjustment;

2. the sum of: (a) Compounded SOFR and (b) the Benchmark Replacement Adjustment;

3. the sum of: (a) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark for the applicable Corresponding Tenor and (b) the Benchmark Replacement Adjustment;

4. the sum of: (a) the ISDA Fallback Rate and (b) the Benchmark Replacement Adjustment;

5. the sum of: (a) the alternate rate of interest that has been selected by the relevant Issuer or its designee as the replacement for the then-current Benchmark for the applicable Corresponding Tenor giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for U.S. dollar denominated floating rate notes at such time and (b) the Benchmark Replacement Adjustment.

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

1. the spread adjustment, or method for calculating or determining such spread adjustment (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

2. if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, then the ISDA Fallback Adjustment;

3. the spread adjustment (which may be a positive or negative value or zero) that has been selected by the relevant Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted Benchmark Replacement for U.S. dollar denominated floating rate notes at such time.

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

"*Benchmark Replacement Date*" means the earliest to occur of the following events with respect to the then-current Benchmark:

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

2. in the case of clause (3) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein.

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

"*Benchmark Transition Event*" means the occurrence of one or more of the following events with respect to the then-current Benchmark:

1. a public statement or publication of information by or on behalf of the administrator of the Benchmark announcing that such administrator has ceased or will cease to provide the Benchmark, permanently or indefinitely, *provided* that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark;

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

3. a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative.

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

1. the rate, or methodology for this rate, and conventions for this rate selected or recommended by the Relevant Governmental Body for determining compounded SOFR; *provided* that:

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

"*Corresponding Tenor*" with respect to a Benchmark Replacement means a tenor (including overnight) having approximately the same length (disregarding business day adjustment) as the applicable tenor for the then-current Benchmark.

"*Federal Reserve Bank of New* ***York's*** *Website*" means the website of the Federal Reserve Bank of New York at http://www.newyorkfed.org, or any successor source.

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

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

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

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

"*Reference Time*" with respect to any determination of the Benchmark means (1) if the Benchmark is LIBOR where U.S. dollars is the index currency, 11:00 a.m. (London time) on the day that is two London banking days preceding the date of such determination, and (2) if the Benchmark is not LIBOR where U.S. dollars is the index currency, the time determined by the relevant Issuer or its designee in accordance with the Benchmark Replacement Conforming Changes.

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

"*SOFR*" with respect to any day means the secured overnight financing rate published for such day by the Federal Reserve Bank of New York, as the administrator of the benchmark (or a successor administrator), on the Federal Reserve Bank of New York's Website.

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

"*Unadjusted Benchmark Replacement*" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

Benchmark Replacement for Notes other than LIBOR Notes where the index currency is U.S. dollars. Notwithstanding the provisions in this subsection "—Interest Rates" regarding the calculation of the rate of interest relating to Floating Rate Notes, for Notes other than LIBOR Notes where the index currency is U.S. dollars, if the relevant Issuer (in consultation with the Calculation Agent (or the person specified in the applicable Final Terms as the party responsible for calculating the rate of interest)) determines that a Benchmark Disruption Event (as defined below) has occurred when any rate of interest (or the relevant component part thereof) remains to be determined by reference to such Base Rate affected by the Benchmark Disruption Event, then the following provisions shall apply in determining a "Benchmark Replacement":

(i) the Calculation Agent shall use as the Base Rate for the relevant interest period or interest accrual period a substitute or successor rate that it has determined in its sole discretion, after consulting an Independent Adviser (as defined below) or any other source it deems reasonable, to be (a) the industry-accepted successor rate to the Base Rate or (b) if no such industry-accepted successor rate exists, the most comparable substitute or successor rate to the relevant Base Rate;

(ii) if the Calculation Agent has determined a substitute or successor rate in accordance with the foregoing, the Calculation Agent may determine in its sole discretion, after consulting an Independent Adviser or any other source it deems reasonable, the business day convention, the definitions of business day, relevant website or screenpage, relevant Reuters Page, Base Rate, Interest Reset Date and Interest Determination Date and any other relevant methodology for calculating such substitute or successor rate, including any adjustment factor it determines is needed to make such substitute or successor rate comparable to the relevant Base Rate, in a manner that is consistent with industry-accepted practices for such substitute or successor rate; and

(iii) if the Calculation Agent is unable to determine a substitute or successor rate in accordance with subparagraph (i) above, the rate of interest applicable to the relevant interest period or interest accrual period (as applicable) shall be the rate of interest determined in relation to the Notes on the previous Interest Determination Date or in effect for the last preceding interest accrual period (after readjustment for any difference between any Spread, Spread Multiplier or maximum rate of interest or minimum rate of interest applicable to the preceding interest accrual period and to the relevant interest accrual period); for the avoidance of doubt, this condition shall apply to the relevant interest period or interest accrual period (as applicable) only and any subsequent interest periods or interest accrual periods (as applicable) are subject to the subsequent operation of, and to adjustment as provided in, this "Benchmark Replacement for Notes other than LIBOR Notes where the index currency is U.S. dollars" subsection.

For the purposes of this "Benchmark Replacement for Notes other than LIBOR Notes where the index currency is U.S. dollars" subsection:

"*Independent Adviser*" means an independent financial institution of international repute or other independent financial adviser with appropriate expertise in the international debt capital markets, in each case appointed by the relevant Issuer at its own expense;

"*Benchmark Disruption Event*" occurs if:

(a) the relevant Base Rate (other than SOFR) specified in the applicable Final Terms has ceased to be published on the relevant Reuters Page as a result of such benchmark ceasing to be calculated or administered; or

(b) a change in the generally accepted market practice in the international debt capital markets to refer to a Base Rate (other than SOFR) is endorsed in a public statement by a Relevant Nominating Body, despite the continued existence of the applicable Base Rate; or

(c) where the relevant Base Rate specified in the applicable Final Terms is SOFR, (i) the rate specified in clause (i) of the definition of SOFR under "—Special Rate Calculation Terms" is not so published and (ii) a SOFR Index Cessation Event and a SOFR Index Cessation Effective Date have both occurred.

"*Relevant Nominating Body*" means, in respect of a Base Rate (other than SOFR):

(a) the central bank for the currency to which the Base Rate relates, or any central bank or other supervisory authority which is responsible for administering or supervising the administrator of the Base Rate;

(b) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (i) the central bank for the currency to which the Base Rate relates, (ii) any central bank or other supervisory authority which is responsible for administering or supervising the administrator of the Base Rate, (iii) a group of the aforementioned central banks or other supervisory authorities, or (iv) the Financial Stability Board or any part thereof; or

(c) any of the Board of Governors of the Federal Reserve, the Federal Reserve Bank of New York, the Bank of England, the FCA or the Prudential Regulation Authority or any relevant committee or other body established, sponsored or approved by any of the foregoing, including the Working Group on Sterling Risk-Free Reference Rates and the Alternative Reference Rates Committee.

Federal Funds Rate Notes

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

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

- If the rate described above is not displayed on Reuters Page FEDFUNDS1 at 3:00 P.M., New York City time, on the relevant interest calculation date (unless the calculation is made earlier and the rate is available from that source at that time), then the Federal Funds Rate, for the relevant Interest Determination Date, will be the rate described above as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading "Federal funds (effective)".

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

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

LIBOR Notes

Where a Note is a LIBOR Note, the Note will bear interest at a Base Rate equal to LIBOR for deposits in U.S. dollars or any other index currency, as specified in the applicable Final Terms. In addition, the applicable LIBOR

Base Rate will be adjusted by the Spread or Spread Multiplier, if any, specified in the applicable Final Terms. LIBOR will be determined in the following manner:

- LIBOR will be the offered rate appearing on the Designated LIBOR Page, as of 11:00 A.M., London time, on the relevant LIBOR Interest Determination Date, for deposits of the relevant index currency having the relevant Index Maturity beginning on the relevant Interest Reset Date. The applicable Final Terms will indicate the index currency, the Index Maturity, and the Designated LIBOR Page that apply to the LIBOR Notes.

- If no such rate appears on the Designated LIBOR Page, then LIBOR will be determined on the basis of the rates, at approximately 11:00 A.M., London time, on the relevant LIBOR Interest Determination Date, at which deposits of the following kind are offered to prime banks in the London interbank market by four major banks in that market selected by the Calculation Agent: deposits of the index currency having the relevant Index Maturity, beginning on the relevant Interest Reset Date, and in a representative amount. The Calculation Agent will request the principal London office of each of these banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for the relevant LIBOR Interest Determination Date will be the arithmetic mean of the quotations.

- If fewer than two quotations are provided as described in the prior paragraph, LIBOR for the relevant LIBOR Interest Determination Date will be the arithmetic mean of the rates for loans of the following kind to leading European banks quoted, at approximately 11:00 A.M., in the principal financial center, on that LIBOR Interest Determination Date, by three major banks in that financial center selected by the Calculation Agent: loans of the index currency having the relevant Index Maturity, beginning on the relevant Interest Reset Date, and in a representative amount.

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

SOFR Notes

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

"Compounded Daily SOFR" means, in relation to any interest period, the rate of return of a daily compound interest investment as calculated by the Calculation Agent (or the person specified in the applicable Final Terms as the party responsible for calculating the rate of interest) on the relevant SOFR Interest Determination Date in accordance with the following formula (and the resulting percentage will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards):

$$\left[\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right]\times\frac{360}{d}$$

where:

"d" means, in relation to any interest period, the number of calendar days in such interest period;

"d_o" means, in relation to any interest period, the number of U.S. Government Securities Business Days in such interest period;

"i" means, in relation to any interest period, a series of whole numbers from one to d_o, each representing the relevant U.S. Government Securities Business Day in chronological order from (and including) the first U.S.

Government Securities Business Day in such interest period to (but excluding) the interest payment date of such interest period;

"ni" means, in relation to any interest period and any U.S. Government Securities Business Day "i" during such interest period, the number of calendar days from (and including) such U.S. Government Securities Business Day "i" up to (but excluding) the following U.S. Government Securities Business Day;

"SOFRi" means, in relation to any interest period and any U.S. Government Securities Business Day "i" during such interest period:

(i) if such U.S. Government Securities Business Day is an Interest Reset Date, the Secured Overnight Financing Rate (as defined below) for the U.S. Government Securities Business Day that precedes the Interest Reset Date by the number of U.S. Government Securities Business Days equal to the number of U.S. Government Securities Business Days in the Reset Period; and

(ii) if such U.S. Government Securities Business Day is not an Interest Reset Date (being a U.S. Government Securities Business Day falling in the Suspension Period), the Secured Overnight Financing Rate for the U.S. Government Securities Business Day that precedes the first day of the Suspension Period (the "Suspension Period SOFRi") by the number of U.S. Government Securities Business Days equal to the number of U.S. Government Securities Business Days in the Reset Period. For the avoidance of doubt, the Suspension Period SOFRi shall apply to each day falling in the relevant Suspension Period.

Special Rate Calculation Terms

This subsection entitled "—Interest rates" (except as otherwise specified in, and for the purposes of, the subsection entitled "—Benchmark Replacement for LIBOR Notes where the index currency is U.S. dollars") uses several terms that have special meanings relevant to calculating floating interest rates. These terms are described as follows:

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

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

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

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

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

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

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

The term ***"index currency"*** means, with respect to a LIBOR Note, the currency specified as such in the applicable Final Terms. The index currency may be U.S. dollars or any other currency, and will be U.S. dollars unless another currency is specified in the applicable Final Terms.

The term ***"Index Maturity"*** means, with respect to a Floating Rate Note, the period to maturity of the instrument or obligation on which the interest rate formula is based, as specified in the applicable Final Terms.

"London** business **day" means any day on which dealings in the relevant index currency are transacted in the London interbank market.

The term ***"principal** financial **center"*** means (i) the capital city of the country issuing the Specified Currency in the applicable Note (which in the case of those countries whose currencies were replaced by the euro, will be Brussels, Belgium) or (ii) the capital city of the country to which the relevant index currency, if applicable, relates, except, in each case, with respect to United States dollars, euros, Australian dollars, Canadian dollars, New Zealand dollars, South African rand and Swiss francs, the principal financial center will be The City of New York, London (solely in the case of the relevant LIBOR index currency), Sydney, Toronto, Auckland, Johannesburg and Zurich, respectively.

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

"Reset Period" means the number of U.S. Government Securities Business Days specified in the Final Terms, which shall not be less than one U.S. Government Securities Business Day.

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

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

"Secured Overnight Financing Rate" or "SOFR" means:

(i) in relation to any U.S. Government Securities Business Day (the "SOFR Determination Date"), the daily secured overnight financing rate as published by the Federal Reserve Bank of New York, as the administrator of such rate (or any successor administrator) at or around 3:00 p.m. (New York City time) on the Website of the Federal Reserve Bank of New York on the next succeeding U.S. Government Securities Business Day for trades made on such SOFR Determination Date;

(ii) if the rate specified in (i) above is not so published, and a SOFR Index Cessation Event and a SOFR Index Cessation Effective Date have not both occurred (all as notified to the Calculation Agent by the relevant Issuer), the daily secured overnight financing rate in respect of the last U.S. Government Securities Business Day for which such rate was published on the Website of the Federal Reserve Bank of New York; or

(iii) if the rate specified in (i) above is not so published, and a SOFR Index Cessation Event and a SOFR Index Cessation Effective Date have both occurred (all as notified to the Calculation Agent by the relevant Issuer), the Calculation Agent will determine the rate in accordance with the "Benchmark Replacement" provisions described under "—Benchmark Replacement for Notes other than LIBOR Notes where the index currency is U.S. dollars".

"SIFMA" means the Securities Industry and Financial Markets Association.

"SOFR Index Cessation Effective Date" means, in respect of a SOFR Index Cessation Event, the date on which the Federal Reserve Bank of New York (or a successor administrator) ceases to publish the Secured Overnight Financing Rate, or the date as of which the Secured Overnight Financing Rate may no longer be used.

"SOFR Index Cessation Event" means the occurrence of one or more of the following events:

(i) a public statement by the Federal Reserve Bank of New York (or a successor administrator) announcing that it has ceased or will cease to publish or provide the Secured Overnight Financing Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide a daily secured overnight financing rate;

(ii) the publication of information which reasonably confirms that the Federal Reserve Bank of New York (or a successor administrator) has ceased or will cease to provide the Secured Overnight Financing Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide the Secured Overnight Financing Rate; or

(iii) a public statement by a U.S. regulator or other U.S. official sector entity prohibiting the use of Secured Overnight Financing Rate that applies to, but need not be limited to, the Notes.

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

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

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

"Website of the Federal Reserve Bank of New York" means the website of the Federal Reserve Bank of New York (currently at http://www.newyorkfed.org) or any successor website of the Federal Reserve Bank of New York or other screen page as may be nominated for the purposes of displaying SOFR.

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

Payment of additional amounts

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

- to the extent that the relevant tax is New Zealand tax and is imposed on a holder who is not a NRWT Holder (as defined herein);

- to the extent that the relevant tax is imposed or levied by virtue of the holder, or the beneficial owner, of the Notes having some connection (whether past or present) with a relevant jurisdiction, other than mere receipt of such payment or being a holder, or the beneficial owner, of the Notes;

- to the extent that the relevant tax is imposed or levied by virtue of the holder, or the beneficial owner, of the Notes not complying with any statutory requirements or not presenting any form or certificate or not having made a declaration of non-residence in, or lack of connection with, a relevant jurisdiction or any similar claim for exemption, if the relevant Issuer or its agent has provided the holder, or the beneficial owner, of the Notes with at least 60 days' prior written notice of an opportunity to comply with such statutory requirements or make a declaration or claim;

- to the extent that the relevant tax is imposed or levied by virtue of the holder, or the beneficial owner, of the Notes having presented for payment more than 30 days after the date on which the payment in respect of the Notes first became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;

- to the extent that the relevant tax is imposed or levied by virtue of the holder, or the beneficial owner, of the Notes having presented the Notes for payment in a relevant jurisdiction, unless the Notes could not have been presented for payment elsewhere; or

- to the extent any combination of the above applies.

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

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

(a) a holder that holds the Notes for the purposes of a business that the holder carries on in New Zealand through a fixed establishment in New Zealand; or

(b) a holder that is a registered bank engaged in business in New Zealand through a fixed establishment in New Zealand and is not associated with the Issuer.

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

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

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

Redemption and repayment

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

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

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

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

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

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

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

Redemption for taxation reasons

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

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

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

Mergers and similar transactions

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

- if the successor entity in the transaction is not ANZ New Zealand or ANZNIL, as applicable, the successor entity must be organized as a corporation, partnership or trust and, unless the assumption occurs by operation of law, must expressly assume the relevant Issuer's obligations under the Notes and the Fiscal Agency Agreement with respect to the Notes. The successor entity may be organized under the laws of New Zealand, the United Kingdom, the United States or any State thereof, the District of Columbia or any other member country of the Organization for Economic Cooperation and Development;

- immediately after the transaction, no default under the Notes has occurred and is continuing. For this purpose, "default under the Notes" means an Event of Default with respect to the Notes or any event that would be an Event of Default with respect to the Notes if the requirements for giving the relevant Issuer default notice and for the relevant Issuer's default having to continue for a specific period of time were disregarded. These matters are described below under "— Default, remedies and waiver of default"; and

- in the case of the successor entity, if such entity is not organized and validly existing under the laws of New Zealand or the United Kingdom, such successor entity shall expressly agree:

    - to indemnify each holder of the Notes against any tax, assessment or governmental charge required to be withheld or deducted from any payment to such holder as a consequence of such consolidation, merger, conveyance, transfer or lease; and

    - that all payments pursuant to the Notes shall be made without withholding or deduction for, on account of, any tax of whatever nature imposed or levied on behalf of the jurisdiction of organization of such successor entity, or any political subdivision or taxing authority thereof or therein, unless such tax is required by such jurisdiction or any such subdivision or authority to be withheld or deducted, in which case such successor entity will pay such additional amounts in order that the net amounts received by the holders after such withholding or deduction will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, subject to the same exceptions as would apply with respect to the payment by ANZ New Zealand or ANZNIL of additional amounts in respect of the Notes (substituting the jurisdiction of organization of such successor entity for New Zealand or the United Kingdom). For the avoidance of doubt, any amounts to be paid on the Notes by such successor entity will be paid net of any deduction or withholding imposed or required pursuant to Sections 1471 through 1474 of the Code, i.e., the Foreign Account Tax Compliance Act, or FATCA, any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code, and no additional amounts will be required to be paid on account of any such deduction or withholding.

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

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

Covenant defeasance

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

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

- the relevant Issuer must deposit in trust for the benefit of all direct Holders of the Notes a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash, in the written opinion of a nationally recognized firm of independent public accountants to make interest, principal and any other payments on the Notes on their various due dates; and

- the relevant Issuer must deliver to the defeasance trustee, who may be the Fiscal Agent, a legal opinion of counsel confirming that under current U.S. federal income tax law the relevant Issuer may make the above deposit without causing the Holders of Notes to be taxed on the Notes any differently than if it did not make the deposit and just repaid the Notes.

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

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

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

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

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

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

Default, remedies and waiver of default

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

Events of Default

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

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

Remedies if an Event of Default occurs

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

Waiver of default

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

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

Modification of the Fiscal Agency Agreement and waiver of covenants

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

*Changes requiring each **holder's** approval*

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

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

Changes not requiring approval

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

Changes requiring majority approval

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

- the written consent of the holders of at least 50% of the aggregate principal amount of the Notes at the time outstanding; or

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

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

The quorum at any meeting called to adopt a resolution will be persons holding or representing a majority in aggregate principal amount of the Notes at the time outstanding and, at any reconvened meeting adjourned for lack of a quorum, 25% of the aggregate principal amount of the Notes outstanding. For purposes of determining whether holders of the aggregate principal amount of Notes required for any action or vote, or for any quorum, have taken the action or vote, or constitute a quorum, the principal amount of any particular Note may differ from its principal amount at stated maturity but will not exceed its stated face amount upon original issuance.

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

Special rules for action by holders

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

Only outstanding Notes are eligible

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

- if it has been surrendered for cancellation;

- if the relevant Issuer has deposited or set aside, in trust for its holder, money for its payment or redemption;

- if the relevant Issuer has fully defeased it as described above under "— Covenant defeasance"; or

- if the relevant Issuer or one of its affiliates, such as ANZBGL, is the owner.

Eligible principal amount of some Notes

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

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

- for an Original Issue Discount Note, the relevant Issuer will use the principal amount that would be due and payable on the action date if the maturity of the Note were accelerated to that date because of a default;

- for a Note whose principal amount is not known, the relevant Issuer will use any amount that it indicates in the applicable Final Terms for that Note; or

- for Notes with a principal amount denominated in one or more non-U.S. dollar currencies or currency units, the relevant Issuer will use the U.S. dollar equivalent, which the relevant Issuer will determine.

Form, exchange and transfer of Notes

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

- only in fully registered form;

- without interest coupons; and

- unless the relevant Issuer indicates otherwise in the applicable Final Terms, in denominations of US$200,000, or greater (or the equivalent thereof in another currency or composite currency).

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

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

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

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

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

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

Payment mechanics for Notes

Who receives payment?

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

Payment and record dates for interest

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

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

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

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

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

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

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

How Issuers will make payments due in other currencies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Payment when offices are closed

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

Paying Agents

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

Unclaimed payments

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

Notices

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

Relationship with the Fiscal Agent

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

Prescription

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

Governing law

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

Legal Ownership and Book-Entry Issuance

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

Who is the legal owner of a registered Note?

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

Book-entry owners

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

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

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

Street name owners

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

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

Legal holders

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

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

Special considerations for indirect owners

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

- how it handles securities payments and notices;

- whether it imposes fees or charges;

- whether and how they can instruct it to exercise any rights to purchase or sell Notes or to exchange or convert a Note for or into other property;

- how it would handle a request for the holders' consent, if ever required;

- whether and how they can instruct it to send Notes registered in their own name so they can be a holder, if that is permitted in the future;

- how it would exercise rights under the Notes if there were a default or other event triggering the need for holders to act to protect their interests; and

- if the Notes are in book-entry form, how the Depositary's rules and procedures will affect these matters.

What is a Global Note?

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

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

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

Special considerations for Global Notes

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

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

- an investor cannot cause the Notes to be registered in his or her own name, and cannot obtain non-global certificates for his or her interest in the Notes, except in the special situations described below;

- an investor will be an indirect holder and must look to his or her own bank or broker for payments on the Notes and protection of his or her legal rights relating to the Notes, as described above under "—Who is the legal owner of a registered Note?";

- an investor may not be able to sell interests in the Notes to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form;

- an investor may not be able to pledge his or her interest in a Global Note in circumstances where certificates representing the Notes must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;

- the Depositary's policies will govern payments, deliveries, transfers, exchanges, notices and other matters relating to an investor's interest in a Global Note, and those policies may change from time to time. The relevant Issuer and the Fiscal Agent will have no responsibility for any aspect of the Depositary's policies, actions or records of ownership interests in a Global Note. The relevant Issuer and the Fiscal Agent also do not supervise the Depositary in any way;

- the Depositary will require that those who purchase and sell interests in a Global Note within its book-entry system use immediately available funds and an indirect owner's broker or bank may require them to do so as well; and

- financial institutions that participate in the Depositary's book-entry system and through which an investor holds its interest in the Global Notes, directly or indirectly, may also have their own policies affecting payments, deliveries, transfers, exchanges, notices and other matters relating to the Notes, and those policies may change from time to time. For example, if an indirect owner holds an interest in a Global Note through Euroclear or Clearstream, Luxembourg when DTC is the Depositary, Euroclear or Clearstream, Luxembourg, as applicable, will require those who purchase and sell interests in that Global Note through them to use immediately available funds and comply with other policies and procedures, including deadlines for giving instructions as to transactions that are to be effected on a particular day. There may be more than one financial intermediary in the chain of ownership for an investor. The relevant Issuer does not monitor and is not responsible for the policies or actions or records of ownership interests of any of those intermediaries.

Delivery and form

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

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

Exchanges among the Global Notes

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

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

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

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

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

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

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

- if the Depositary notifies the relevant Issuer that it is unwilling, unable or no longer qualified to continue as Depositary for that Global Note;

- if the relevant Issuer notifies the Fiscal Agent that it wishes to terminate that Global Note; or

- if an Event of Default has occurred and is continuing with regard to these Notes.

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

Considerations relating to DTC, Euroclear and Clearstream, Luxembourg

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Considerations Relating to Notes Denominated or Payable in or Linked to a Non-U.S. dollar Currency

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

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

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

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

Changes in currency exchange rates can be volatile and unpredictable

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

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

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

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

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

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

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

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

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

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

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

Information about exchange rates may not be indicative of future performance

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

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

Taxes

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

United States federal income taxation

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

(a) a financial institution;

(b) a dealer in securities or currencies;

(c) a trader in securities that elects to use a mark-to-market method of accounting for its securities holdings;

(d) a bank;

(e) a life insurance company;

(f) a tax-exempt organization;

(g) a person that owns Notes that are a hedge or that are hedged against interest rate or currency risks;

(h) a person that owns Notes as part of a straddle or conversion transaction for tax purposes;

(i) A person that purchases or sells Notes as part of a wash sale for tax purposes; or

(j) a United States Holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

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

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

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

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

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

United States Holders

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

(a) a citizen or resident of the United States;

(b) a domestic corporation (including an entity treated as a domestic corporation for United States federal income tax purposes);

(c) an estate whose income is subject to United States federal income tax regardless of its source; or

(d) a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

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

Payments of interest

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

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

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

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

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

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

Original issue discount

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

In general, the Note is not a discount Note if the amount by which its stated redemption price at maturity exceeds its issue price is less than the *de minimis* amount of ¼ of 1% of its stated redemption price at maturity multiplied by the number of complete years to its maturity. The Note will have *de minimis* original issue discount if the amount of the excess is less than the *de minimis* amount. If the Note has *de minimis* original issue discount, the holder must include the *de minimis* amount in income as stated principal payments are made on the Note, unless the holder makes the election described below under "—Election to treat all interest as original issue discount". The holder can determine the includible amount with respect to each such payment by multiplying the total amount of the Note's *de minimis* original issue discount by a fraction equal to:

(a) the amount of the principal payment made

divided by:

(b) the stated principal amount of the Note.

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

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

(a) multiplying the discount Note's adjusted issue price at the beginning of the accrual period by the Note's yield to maturity, and then

(b) subtracting from this figure the sum of the payments of qualified stated interest on the Note allocable to the accrual period.

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

(a) adding the discount Note's issue price and any accrued OID for each prior accrual period, and then

(b) subtracting any payments previously made on the discount Note that were not qualified stated interest payments.

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

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

(a) the amount payable at the maturity of the Note, other than any payment of qualified stated interest; and

(b) the Note's adjusted issue price as of the beginning of the final accrual period.

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

(a) the excess of the adjusted basis in the Note immediately after purchase over the adjusted issue price of the Note

divided by:

(b) the excess of the sum of all amounts payable, other than qualified stated interest, on the Note after the purchase date over the Note's adjusted issue price.

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

(a) a portion of the initial purchase price of the Note is attributable to pre-issuance accrued interest;

(b) the first stated interest payment on the Note is to be made within one year of such Note's issue date; and

(c) the payment will equal or exceed the amount of pre-issuance accrued interest.

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

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

(a) the timing and amounts of the payments that comprise each payment schedule are known as of the issue date; and

(b) one of such schedules is significantly more likely than not to occur.

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

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

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

(b) in the case of an option or options that the holder may exercise, the holder will be deemed to exercise or not exercise an option or combination of options in the manner that maximizes the yield on the Note.

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

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

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

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

(a) the issue price of the Note will equal the cost;

(b) the issue date of the Note will be the date the holder acquired it; and

(c) no payments on the Note will be treated as payments of qualified stated interest.

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

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

(a) The Note's issue price does not exceed the total non-contingent principal payments by more than the lesser of:

    1. .015 multiplied by the product of the total non-contingent principal payments and the number of complete years to maturity from the issue date; or

    2. 15% of the total non-contingent principal payments; and

(b) the Note provides for stated interest, compounded or paid at least annually, only at:

    1. one or more qualified floating rates;

    2. a single fixed rate and one or more qualified floating rates;

    3. a single objective rate; or

    4. a single fixed rate and a single objective rate that is a qualified inverse floating rate; and

(c) the value of any variable rate on any date during the term of the Note is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

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

(a) variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Note is denominated; or

(b) the rate is equal to such a rate either:

    1. multiplied by a fixed multiple that is greater than 0.65 but not more than 1.35; or

    2. multiplied by a fixed multiple greater than 0.65 but not more than 1.35, and then increased or decreased by a fixed rate.

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

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

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

(a) the rate is not a qualified floating rate; and

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

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

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

(a) the rate is equal to a fixed rate minus a qualified floating rate; and

(b) the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the cost of newly borrowed funds.

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

(a) the fixed rate and the qualified floating rate or objective rate have values on the issue date of the Note that do not differ by more than 0.25 percentage points; or

(b) the value of the qualified floating rate or objective rate is intended to approximate the fixed rate.

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

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

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

(a) determining a fixed rate substitute for each variable rate provided under the variable rate Note;

(b) constructing the equivalent fixed rate debt instrument, using the fixed rate substitute described above;

(c) determining the amount of qualified stated interest and OID with respect to the equivalent fixed rate debt instrument; and

(d) adjusting for actual variable rates during the applicable accrual period.

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

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

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

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

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

Market discount

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

(a) the holder purchases the Note for less than its issue price as determined above under "– Original issue discount – General"; and

(b) the difference between the Note's stated redemption price at maturity or, in the case of a discount Note, the Note's revised issue price, and the price the holder paid for the Note is equal to or greater than ¼ of 1% of the Note's stated redemption price at maturity multiplied by the number of complete years to the Note's maturity. To determine the revised issue price of the Note for these purposes, the holder generally adds any OID that has accrued on the Note to its issue price.

If the Note's stated redemption price at maturity or, in the case of a discount Note, its revised issue price, exceeds the price the holder paid for the Note by less than ¼ of 1% of the Note's stated redemption price at maturity multiplied by the number of complete years to the Note's maturity, the excess constitutes *de minimis* market discount, and the rules discussed below are not applicable.

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

The holder will accrue market discount on the market discount Note on a straight-line basis unless the holder elects to accrue market discount using a constant-yield method. If the holder makes this election, it will apply only to the Note with respect to which it is made and the holder may not revoke it.

Notes purchased at a premium

If the holder purchases the Note for an amount in excess of its principal amount (or, in the case of a discount Note, in excess of the sum of all amounts payable on the Note after the acquisition date (other than payments of qualified stated interest)), the holder may elect to treat the excess as amortizable bond premium. If the holder makes this election, the holder will reduce the amount required to be included in the income each accrual period with respect to interest on the Note by the amount of amortizable bond premium allocable to that accrual period, based on the Note's yield to maturity. If the Note is denominated in, or determined by reference to, a foreign currency, the holder will compute the amortizable bond premium in units of the foreign currency and the amortizable bond premium will reduce the interest income in units of the foreign currency. Gain or loss recognized that is attributable to changes in exchange rates between the time the amortized bond premium offsets interest income and the time of the acquisition of the Note is generally taxable as ordinary income or loss. If the holder makes an election to amortize bond premium, it will apply to all debt instruments, other than debt instruments the interest on which is excludible from gross income, that the holder holds at the beginning of the first taxable year to which the election applies or that the holder thereafter acquires, and the holder may not revoke it without the consent of the IRS. See also "–Original issue discount–Election to treat all interest as original issue discount".

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

Purchase, sale and retirement of the Notes

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

(a) adding any OID or market discount previously included in income with respect to the Note, and then

(b) subtracting any payments on the Note that are not qualified stated interest payments and any amortizable bond premium to the extent that such premium either reduced interest income on the Note or gave rise to a deduction on the Note.

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

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

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

(a) described above under "– Original issue discount-Short-term Notes" or "– Market discount";

(b) attributable to accrued but unpaid interest; or

(c) attributable to changes in exchange rates as described below.

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

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

Exchange of amounts in other than U.S. dollars

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

Contingent Payment Obligations

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

Treasury Regulations Requiring Disclosure of Reportable Transactions

U.S. Treasury regulations require United States taxpayers to report certain transactions that give rise to a loss in excess of certain thresholds (a "**Reportable Transaction**"). Under these regulations, if the Notes are denominated in a foreign currency, a United States Holder (or a Non-United States Holder that holds the Notes in connection with a U.S. trade or business) that recognizes a loss with respect to the Notes that is characterized as an ordinary loss due to changes in currency exchange rates (under any of the rules discussed above) would be required to report the loss on IRS Form 8886 (Reportable Transaction Statement) if the loss exceeds the thresholds set forth in the regulations. For individuals and trusts, this loss threshold is $50,000 in any single taxable year. For other types of taxpayers and other types of losses, the thresholds are higher. Investors should consult with their tax advisor regarding any tax filing and reporting obligations that may apply in connection with acquiring, owning and disposing of Notes.

Information with Respect to Foreign Financial Assets

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

FATCA Withholding

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

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

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

Non-United States Holders

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

(a) a non-resident alien individual;

(b) a foreign corporation; or

(c) an estate or trust that in either case is not subject to United States federal income tax on a net income basis on income or gain from a Note.

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

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

(a) the investor is an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the Code; or

(b) the investor both

- has an office or other fixed place of business in the United States to which the interest is attributable; and
- derives the interest in the active conduct of a banking, financing or similar business within the United States.

Purchase, sale, retirement and other disposition of the Notes

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

(a) the gain is effectively connected with the conduct of a trade or business in the United States; or

(b) the investor is an individual, the investor is present in the United States for 183 or more days during the taxable year in which the gain is realized and certain other conditions exist.

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

Backup withholding and information reporting

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

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

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

(a) the broker has certain connections to the United States;

(b) the proceeds or confirmation are transferred or mailed to an account or address maintained by the investor in the United States; or

(c) the sale has certain other specified connections with the United States as provided in U.S. Treasury regulations,

unless the broker does not have actual knowledge or reason to know that the investor is a United States person and the documentation requirements described above are met or the investor otherwise establishes an exemption.

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

New Zealand taxation

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

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

(a) associated;

(b) fixed establishment;

(c) registered bank; and

(d) resident in New Zealand,

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

Non-resident withholding tax

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

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

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

(a) a holder that holds the Notes for the purposes of a business that the holder carries on in New Zealand through a fixed establishment in New Zealand; or

(b) a holder that is a registered bank engaged in business in New Zealand through a fixed establishment in New Zealand and is not associated with the Issuer.

Resident withholding tax

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

(a) the holder is not a NRWT Holder ("RWT Holder"); and

(b) at the time of such payment the RWT Holder does not hold a valid certificate of exemption from, or otherwise has exempt status in respect of, New Zealand resident withholding tax.

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

(a) must notify the Issuer, the Guarantor or any Paying Agent, as the case may be, that the RWT Holder is the holder of a Note; and

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

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

Other taxes

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

United Kingdom taxation

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

UK withholding tax on UK source interest

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

UK Notes will constitute "quoted Eurobonds" within the meaning of section 987 of the Income Tax Act 2007 provided they carry a right to interest and are, and continue to be, either (1) listed on a recognized stock exchange within the meaning of section 1005 Income Tax Act 2007 or (2) admitted to trading on a multilateral trading facility (within the meaning of Article 4.1.22 of Directive 2014/65/EU) operated by an EEA regulated recognized stock exchange. HMRC may designate certain exchanges as recognized stock exchanges. The London Stock Exchange is a recognized stock exchange for these purposes. Securities will be treated as listed on a recognized stock exchange only if they are both: (i) admitted to trading on that exchange and (ii) are either included in the official UK list or are officially listed in a qualifying country outside the UK in accordance with provisions corresponding to those generally applicable in EEA States. Provided that the UK Notes are and continue to be quoted Eurobonds, payments of interest on the UK Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

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

Payments by Guarantor

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

Other rules relating to United Kingdom withholding tax

The Notes may be issued at an issue price of less than 100% of their principal amount. Any discount element on such Notes will not, under current United Kingdom practice, be treated as interest for United Kingdom withholding tax purposes. On that basis, discounts will not be subject to any United Kingdom withholding tax, pursuant to the provisions mentioned above under "UK withholding tax on UK source interest".

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

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

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

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

UK stamp duties

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

(a) a conversion right or rights to acquire other shares or securities;

(b) a right to interest the amount of which exceeds a reasonable commercial return on the nominal amount of the capital;

(c) a right to interest, the amount of which falls or has fallen to be determined to any extent by reference to results of, or of any part of, a business or to the value of any property; or

(d) a right on repayment to an amount which exceeds the nominal amount of capital and is not reasonably comparable with what is generally repayable (in respect of a similar nominal amount of capital) under the terms of issue of loan capital listed in the Official List of the London Stock Exchange.

For Notes that do contain or have contained such a term then (assuming that any register relating to the Notes is kept outside the United Kingdom), no stamp duty reserve tax arises on any agreement to transfer such Notes unless the Notes give the holder a right to allotments of or to subscribe for, or an option to acquire, or an interest in (or in dividends or other rights arising out of) stocks, shares or certain types of loan capital in a company which are: (i) interests in a United Kingdom incorporated company; (ii) which are registered in a register kept in the United Kingdom; or (iii) are shares and are "paired" (as defined in section 99(6B) of the Finance Act 1986) with shares issued by a United Kingdom incorporated company.

General

None of ANZ New Zealand, nor ANZNIL or any of the Agents make any comment about the treatment for taxation purposes of payments or receipts in respect of the Notes. Each investor contemplating acquiring Notes is advised to consult a professional adviser in connection with the consequences relating to the acquisition, retention and disposition of Notes.

Employee Retirement Income Security Act

A fiduciary of a pension, profit-sharing or other employee benefit plan (a "plan") subject to ERISA should consider the fiduciary standards of ERISA in the context of the plan's particular circumstances before authorizing an investment in the Notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the plan, and whether the investment would involve a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Section 406 of ERISA and Section 4975 of the Code prohibit plans, as well as individual retirement accounts and Keogh plans subject to Section 4975 of the Code (also "plans"), from engaging in certain transactions involving "plan assets" with persons who are "parties in interest" under ERISA or "disqualified persons" under the Code ("parties in interest") with respect to the plan. A violation of these prohibited transaction rules may result in civil penalties or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Certain employee benefit plans and arrangements including those that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and foreign plans (as described in Section 4(b)(4) of ERISA) ("non-ERISA arrangements") are not subject to the requirements of ERISA or Section 4975 of the Code but may be subject to similar provisions under applicable federal, state, local, foreign or other regulations, rules or laws ("similar laws").

The acquisition of the Notes by a plan with respect to which the relevant Issuer or certain of its affiliates is or becomes a party in interest may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code, unless those Notes are acquired pursuant to and in accordance with an applicable exemption. Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of securities where neither ANZ New Zealand nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of the plan involved in the transaction and the plan pays no more and receives no less than "adequate consideration" in connection with the transaction (the "service provider exemption"). The U.S. Department of Labor has also issued five prohibited transaction class exemptions, or "PTCEs", that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the Notes. These exemptions are:

- PTCE 84-14, an exemption for certain transactions determined or effected by independent qualified professional asset managers;
- PTCE 90-1, an exemption for certain transactions involving insurance company pooled separate accounts;
- PTCE 91-38, an exemption for certain transactions involving bank collective investment funds;
- PTCE 95-60, an exemption for transactions involving certain insurance company general accounts; and
- PTCE 96-23, an exemption for plan asset transactions managed by in-house asset managers.

Any purchaser or holder of Notes or any interest therein will be deemed to have represented by its purchase and holding of the Notes that it either (1) is not a plan and is not purchasing those Notes on behalf of or with "plan assets" of any plan or (2) with respect to the purchase or holding is eligible for the exemptive relief available under any of the PTCEs listed above, the service provider exemption or another applicable exemption. In addition, any purchaser or holder of Notes or any interest therein which is a non-ERISA arrangement will be deemed to have represented by its purchase or holding of the Notes that its purchase and holding will not constitute or result in a non-exempt violation of the provisions of any similar law.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing Notes on behalf of or with "plan assets" of any plan or non-ERISA arrangement consult with their counsel regarding the availability of exemptive relief under any of the PTCEs listed above, the service provider exemption or any other applicable exemption, or the potential consequences of any purchase or holding under similar laws, as applicable.

If the investor is an insurance company or the fiduciary of a pension plan or an employee benefit plan, and proposes to invest in Notes, the investor should consult their legal counsel.

Plan of Distribution

The Notes are being offered on a periodic basis for sale by the Issuers through J.P. Morgan Securities LLC, ANZ Securities, Inc., Barclays Capital Inc., BofA Securities, Inc., Citigroup Global Markets Inc., Deutsche Bank Securities Inc., Goldman Sachs & Co. LLC, HSBC Securities (USA) Inc., Morgan Stanley & Co. LLC, RBC Capital Markets, LLC and Wells Fargo Securities, LLC and each agent appointed from time to time by the Issuers under and in accordance with the terms of the Distribution Agreement (the "Agents"), each of which has agreed to use its reasonable best efforts to solicit offers to purchase the Notes. The applicable Issuer will pay the applicable Agent a commission which will equal the percentage of the principal amount of any such Note sold through such Agent set forth in the applicable Final Terms. An Issuer may also sell Notes to an Agent, as principal, at a discount from the principal amount thereof, and such Agent may later resell such Notes to investors and other purchasers at varying prices related to prevailing market prices at the time of sale as determined by such Agent. An Issuer may also sell Notes directly to, and may solicit and accept offers to purchase directly from, investors on its own behalf in those jurisdictions where it is authorized to do so. The Notes will be offered in accordance with the provisions of the Distribution Agreement.

In addition, the Agents may offer the Notes they have purchased as principal to other Agents. The Agents may sell Notes to any Agent at a discount. Unless otherwise indicated, any Note sold to an Agent as principal will be purchased by such Agent at a price equal to 100% of the principal amount thereof less a percentage equal to the commission applicable to any agency sale of a Note of identical term, and may be resold by such Agent to investors and other purchasers from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale or may be resold to certain dealers as described above. After the initial offering of Notes to be resold to investors and other purchasers on a fixed offering price basis, the offering price, concession and discount may be changed.

Each Issuer reserves the right to withdraw, cancel or modify the offer made hereby without notice and may reject orders in whole or in part whether placed directly with such Issuer or through an Agent. Each Agent will have the right, in its discretion reasonably exercised, to reject any offer to purchase Notes received by it, in whole or in part.

In connection with an offering of Notes purchased by one or more Agents as principal on a fixed offering price basis, such Agent(s) will be permitted to over-allot or engage in transactions that stabilize the price of Notes. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of Notes. If the Agent creates or the Agents create, as the case may be, a short position in Notes, that is, if it sells or they sell Notes in an aggregate principal amount exceeding that set forth in the applicable Final Terms, such Agent(s) may reduce that short position by purchasing Notes in the open market. In general, purchase of Notes for the purpose of stabilization or to reduce a short position could cause the price of Notes to be higher than it might be in the absence of such purchases. Such stabilization if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilization, if any, shall be outside New Zealand (and not on any market in New Zealand) and in accordance with all applicable laws and rules.

None of the Issuers, ANZ New Zealand (in the case of ANZNIL Notes) or any of the Agents makes any representation or prediction as to the direction or magnitude of any effect that the transactions described in the immediately preceding paragraph may have on the price of Notes. In addition, none of the Issuers, ANZ New Zealand (in the case of ANZNIL Notes) or any of the Agents make any representation that the Agents will engage in any such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Agents may from time to time purchase and sell Notes in the secondary market, but they are not obligated to do so, and there can be no assurance that there will be a secondary market for the Notes or liquidity in the secondary market if one develops. From time to time, the Agents may make a market in the Notes.

The Issuers have agreed to indemnify the several Agents against and to make contributions relating to certain liabilities, including liabilities under the Securities Act. The Agents and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The Agents may engage in transactions with, or perform services for, the Issuers in the ordinary course of business.

Some of the Agents or their affiliates have, directly or indirectly, performed investment and/or commercial banking or financial advisory services for the Issuers or their affiliates, for which they may have received customary fees and commissions, and they expect to provide these services to the Issuers and their affiliates in the future, for which they may also receive customary fees and commissions. In the ordinary course of their various business activities, the Agents and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and instruments of the Issuers. If any of the Agents or their affiliates have a lending relationship with us, certain of those Agents or their affiliates routinely hedge, and certain other of those Agents or their affiliates may hedge, their credit exposure to the relevant Issuer consistent with their customary risk management policies. Typically, these Agents and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the relevant Issuer's securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The Agents and their respective affiliates may also make investment recommendations and publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

United States

The Notes are not being registered under the Securities Act in reliance upon Regulation S and the exemptions from registration provided by Section 4(a)(2) of the Securities Act and Rule 144A. The Notes are being offered hereby only (A) to QIBs in reliance on Rule 144A and (B) to persons other than U.S. persons (as defined in Regulation S) in offshore transactions in reliance upon Regulation S. The minimum principal amount of Notes which may be purchased for any account is US$200,000 or such larger principal amounts as shall be specified in the applicable Final Terms as the minimum denomination for the Notes of a relevant Tranche (or, in either case, the equivalent thereof in another currency or composite currency).

Prior to any issuance of Notes in reliance on Regulation S, each relevant agent will be deemed to represent and agree that it will send to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from them during the distribution compliance period (as defined in Regulation S) a confirmation or notice substantially to the following effect:

"The Notes covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not as a matter of U.S. law be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, except in either case in accordance with Regulation S (or Rule 144A, if available) under the Securities Act. Terms used above have the meaning given to them by Regulation S".

Until the expiration of the period ending 40 days after the later of the commencement of the offering and the issue date of the Notes, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from Registration under the Securities Act.

There is no undertaking to register the Notes hereafter and they cannot be resold except pursuant to an effective registration statement or an exemption from the registration requirements of the Securities Act. Each purchaser of the Notes offered hereby in making its purchase shall be deemed to have made the acknowledgments, representations and agreements as set forth under "Notice to Purchasers" contained on pages i through iii hereof.

Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("NI 33-**105"**), the Agents are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Hong Kong

The Notes have not been offered or sold and will not be offered or sold in Hong Kong by means of any document (except for Notes which are a "structured product") other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made thereunder or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions Ordinance (Cap. 32) of Hong Kong (the "C(WUMP)O")) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and no advertisement, invitation or document relating to the Notes has been issued or was in the possession of any person for the purposes of issue, or may be issued or may be in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made thereunder.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended, the "FIEL"), and accordingly, have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to, or for the account or benefit of, any Japanese Person or to, or for the account or benefit of, others for re-offering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, a Japanese Person, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines promulgated by the relevant Japanese governmental or regulatory authorities in effect at the relevant time. For purposes of this paragraph "Japanese Person" means any person resident in Japan, including any corporation or other entity incorporated or organized under the laws of Japan.

New Zealand

No action has been or will be taken by any Issuer, the Guarantor or the Agents which would permit a public or regulated offering of any of the Notes, or possession or distribution of any offering material in relation to the Notes, in New Zealand.

Each Agent, and each further Agent appointed under the Distribution Agreement, will be deemed to represent and agree that it has not offered, sold or delivered and will not directly or indirectly offer, sell or deliver any Note, and it will not distribute any offering memorandum or advertisement in relation to any offer of Notes, in New Zealand, other than to any or all of the following persons only:

(a) "wholesale investors" as that term is defined in clauses 3(2)(a), (c) and (d) of Schedule 1 to the Financial Markets Conduct Act 2013 of New Zealand (the "FMC Act"), being a person who is:

(i) an "investment business";

(ii) "large"; or

(iii) a "government agency",

in each case as defined in Schedule 1 to the FMC Act; and

(b) in other circumstances where there is no contravention of the FMC Act, provided that (without limiting paragraph (a) above) Notes may not be offered or transferred to any "eligible investors" (as defined in the FMC Act) or any person that meets the investment activity criteria specified in clause 38 of Schedule 1 to the FMC Act.

In addition, each Agent, and each further Agent appointed under the Distribution Agreement, will be deemed to represent and agree that it has not offered or sold, and will not offer or sell, any Notes to persons whom it believes to be persons to whom any amounts payable on the Notes are or would be subject to New Zealand resident withholding tax, unless such persons certify that they hold a valid certificate of exemption from, or otherwise have exempt status in respect of, New Zealand resident withholding tax, and provide a New Zealand tax file number to such Agent (in which event the Agent shall provide details thereof to the relevant Issuer or to the Fiscal Agent).

Prohibition of Sales to EEA and UK Retail Investors

Each Agent, and each further Agent appointed under the Distribution Agreement, will be deemed to represent and agree that it will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Memorandum as completed by the Final Terms in relation thereto to any retail investor in the EEA or in the UK. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Republic of Korea

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act of Korea. The Notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as defined in the Foreign Exchange Transactions Law of Korea and its Enforcement Decree), or to any other person for reoffering, resale or re-delivery, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea, except as otherwise permitted by applicable Korean laws and regulations. Without prejudice to the foregoing, the number of the Notes offered in Korea or to a resident in Korea shall be less than fifty, and for a period of one year from the issue date of the Notes, none of the Notes may be divided resulting in an increase number of the Notes. Furthermore, the Notes may not be resold to Korean residents unless the purchaser of the Notes complies with all applicable regulatory requirements (including but not limited to government reporting requirements under the Foreign Exchange Transactions Law of Korea and its Enforcement Decree) in connection with the purchase of the Notes.

Singapore

This Offering Memorandum has not been and will not be registered as a prospectus under the SFA by the MAS, and the offer of the Notes in Singapore is made primarily pursuant to the exemptions under Section 274 and 275 of the SFA. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an Institutional Investor as defined in Section 4A of the SFA (an "Institutional Investor") pursuant to Section 274 of the SFA, (ii) to an accredited investor as defined in Section 4A of the SFA (an "Accredited Investor") or other relevant person as defined in Section 275(2) of the SFA (a "Relevant Person") and pursuant to Section 275(1) of the SFA, or to any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (iii) otherwise pursuant to, and in accordance with, the conditions of any other applicable exemption or provision of the SFA.

It is a condition of the offer that where the Notes are subscribed for or acquired pursuant to an offer made in reliance on Section 275 of the SFA by a Relevant Person which is:

(a) a corporation (which is not an Accredited Investor), the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an Accredited Investor; or

(b) a trust (where the trustee is not an Accredited Investor), the sole purpose of which is to hold investments and each beneficiary of the trust is an individual who is an Accredited Investor,

securities (as defined in Section 2(1) of the SFA) or securities-based derivatives contracts (as defined in Section 2(1) of the SFA) of that corporation and the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has subscribed for or acquired the Notes except:

(1) to an Institutional Investor, an Accredited Investor, a Relevant Person, or which arises from an offer referred to in Section 275(1A) of the SFA (in the case of that corporation) or Section 276(4)(i)(B) of the SFA (in the case of that trust);

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law; or

(4) as specified in Section 276(7) of the SFA.

Any reference to the "SFA" is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

Taiwan

The Notes may be made available for purchase from outside Taiwan by investors residing in Taiwan either direcly or through a duly licensed Taiwan intermediary, but may not be offered or sold in Taiwan. Any subscriptions of Notes shall only become effective upon acceptance by the relevant Issuer or the relevant Agent outside Taiwan and shall be deemed a contract entered into in the jurisdiction of incorporation of the relevant Issuer or Agent, as the case may be.

United Kingdom

Each Agent, and each further Agent appointed under the Distribution Agreement, will be deemed to represent and agree that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer or, in the case of ANZNIL Notes, the Guarantor; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Legal Matters

The validity of the Notes under New York law will be passed upon for the relevant Issuer by ANZ New Zealand's United States counsel Sullivan & Cromwell, Melbourne, Australia. The validity of the Notes under New York law will be passed upon for the Agents by their United States counsel, Sidley Austin LLP, New York, New York, United States. The validity of the Notes under New Zealand law will be passed upon for the relevant Issuer by their New Zealand counsel Russell McVeagh, Wellington, New Zealand. These opinions will be conditioned upon, and subject to certain assumptions regarding future action required to be taken by the relevant Issuer, ANZ New Zealand (in the case of ANZNIL Notes) and the Fiscal Agent in connection with the issuance and sale of any particular Note, the specific terms of Notes and other matters which may affect the validity of Notes but which cannot be ascertained at the date of such opinions.

Independent Auditors

The consolidated financial statements of ANZ Bank New Zealand Limited and its subsidiaries as at September 30, 2019, and September 30, 2018, and for each of the financial years then ended have been audited by KPMG, independent accountants, as stated in their reports appearing herein.

The financial statements of ANZ New Zealand (Int'l) Limited as at September 30, 2019, and September 30, 2018, and for each of the financial years then ended have been audited by KPMG, independent accountants, as stated in their reports appearing herein.

The Independent Auditor's Report for the year ended September 30, 2019 included an emphasis of matter paragraph describing ANZ New Zealand Group's non-compliance with certain conditions of registration (as discussed in section B1 of the 2019 Disclosure Statement) and a qualified review conclusion describing the ANZ New Zealand Group's identification of non-compliance with certain requirements of its conditions of registration in relation to Capital Adequacy (as discussed in section B1 of the 2019 Disclosure Statement).

KPMG partners are members or affiliated members of Chartered Accountants Australia and New Zealand.

General Information

1. The admission of this program to listing on the Official List of the FCA and to trading on the London Stock Exchange's Regulated Market is expected to take effect on or about February 4, 2020. The price of the Notes on the price list of the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any Tranche intended to be admitted to listing on the Official List of the FCA and admitted to trading on the London Stock Exchange's Regulated Market will be admitted to listing and trading upon submission to the FCA and the London Stock Exchange of the applicable Final Terms and any other information required by the FCA and the London Stock Exchange, subject in each case to the issue of the relevant Notes. Prior to admission to trading, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

2. Save as disclosed in the "Risk Factors—Legal and regulatory risk—Litigation and contingent liabilities may adversely affect the ANZ New Zealand Group's Position" section of this Offering Memorandum, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either Issuer is aware) during the last 12 months which may have, or have had in the recent past, significant effects on the financial position or profitability of each Issuer and, in the case of ANZ New Zealand, its subsidiaries taken as a whole.

3. There has been no significant change in the financial position or in the financial performance of each Issuer and, in the case of ANZ New Zealand, its subsidiaries taken as a whole and the ANZ New Zealand Group from September 30, 2019 to the date of this Offering Memorandum. There has been no material adverse change in the prospects of each Issuer since September 30, 2019.

4. There are no material contracts entered into outside the ordinary course of any of the Issuers' businesses, which could result in any group member of any Issuer being under an obligation or entitlement that is material to that Issuer's ability to meet its obligation to holders in respect of the securities being issued.

5. For so long as Notes may be issued pursuant to this Offering Memorandum or any Notes shall be outstanding, the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the office of the Fiscal Agent and the London Paying Agent and at the registered office of the relevant Issuer:

   (i) the constitutive documents of the relevant Issuer, which may also be viewed at the following website:

   https://app.companiesoffice.govt.nz/companies/app/service/services/documents/1D713091AC470A1D9D57B6A4057E1DA3;

   https://app.companiesoffice.govt.nz/companies/app/service/services/documents/5C8863B7C0C2C47CF07FD4FE31382115/CertIncorporation_35976_19December2019.pdf;

   https://app.companiesoffice.govt.nz/companies/app/service/services/documents/40B551AC3C43E02A4EBC7B8DD619B3F6;

   https://app.companiesoffice.govt.nz/companies/app/service/services/documents/EE8C444416A096E1389D25452469665F/CertIncorporation_328154_19December2019.pdf.

   The constitutive documents above are not incorporated by reference herein and do not form part of this Offering Memorandum.

   (ii) the Fiscal Agency Agreement;

   (iii) the Guarantee, which is attached to this Offering Memorandum as Annex C;

   (iv) any Final Terms;

   (v) a copy of this Offering Memorandum together with any supplement to this Offering Memorandum or further Offering Memorandum;

   (vi) copies of the most recent publicly available audited accounts of the ANZ New Zealand Group for the financial years ending September 30, 2019, and 2018, including copies of the report of the independent auditor thereon; and

(vii) copies of the most recently available audited accounts of ANZNIL for the financial years ended September 30, 2019, and 2018, including copies of the report of the independent auditor thereon.

6. The price and amount of Notes to be issued under this program will be determined by each relevant Issuer and the relevant Agent at the time of issue in accordance with the prevailing market conditions at such time.

7. The Issuers do not intend to provide any post-issuance information in relation to any issue of Notes.

8. The establishment of this program and the issue of the Notes by it thereunder was authorized (i) by resolutions of the Board on August 13, 2004, February 16, 2006, October 12, 2006, June 19, 2008, December 2, 2008 and April 15, 2010 (ii) by resolutions of the Board of Directors of ANZNIL on March 4, 2005, March 23, 2006, September 18, 2006, November 28, 2008, December 23, 2008, September 2, 2010 and November 23, 2011 and (iii) by resolutions of the shareholder of ANZNIL on February 10, 2005 and February 16, 2006.

Annex A-ANZ New Zealand Financial Statements

Contents

ANZ BANK NEW ZEALAND LIMITED
ANNUAL REPORT AND REGISTERED BANK DISCLOSURE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2019
NUMBER 92 | ISSUED DECEMBER 2019

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ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2019

Pursuant to section 211(3) of the Companies Act 1993, the shareholder of the Bank has agreed that the Annual Report of the Banking Group need not comply with any of the paragraphs (a), and (e) to (j) of subsection (1) and subsection (2) of section 211.

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year ended 30 September 2019 and the audit report on those financial statements.

For and on behalf of the Board of Directors:

Rt Hon Sir John Key, GNZM AC	Mark Verbiest
Chair	Independent Non-Executive Director
12 December 2019	12 December 2019

GLOSSARY OF TERMS

In this Registered Bank Disclosure Statement (Disclosure Statement) unless the context otherwise requires:

Bank means ANZ Bank New Zealand Limited.

Banking Group, We or Our means the Bank and all its controlled entities.

Immediate Parent Company means ANZ Holdings (New Zealand) Limited.

Ultimate Parent Bank means Australia and New Zealand Banking Group Limited.

Overseas Banking Group means the worldwide operations of Australia and New Zealand Banking Group Limited including its controlled entities.

New Zealand business means all business, operations, or undertakings conducted in or from New Zealand identified and treated as if it were conducted by a company formed and registered in New Zealand.

NZ Branch means the New Zealand business of the Ultimate Parent Bank.

ANZ New Zealand means the New Zealand business of the Overseas Banking Group.

OnePath means OnePath Life (NZ) Limited.

UDC means UDC Finance Limited.

Registered Office is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, New Zealand, which is also the Banking Group's address for service.

RBNZ means the Reserve Bank of New Zealand.

APRA means the Australian Prudential Regulation Authority.

the Order means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

Any term or expression which is defined in, or in the manner prescribed by, the Order shall have the meaning given in or prescribed by the Order.

FINANCIAL STATEMENTS

Consolidated financial statements

Notes to the consolidated financial statements

FINANCIAL STATEMENTS

INCOME STATEMENT

For the year ended 30 September	Note	2019 NZ$m	2018 NZ$m
Interest income		6,423	6,390
Interest expense		(3,179)	(3,240)
Net interest income	2	3,244	3,150
Other operating income	2	915	972
Net income from insurance business	2	27	149
Share of associates' profit	2	4	5
Operating income		4,190	4,276
Operating expenses	3	(1,608)	(1,517)
Profit before credit impairment and income tax		2,582	2,759
Credit impairment charge	12	(101)	(55)
Profit before income tax		2,481	2,704
Income tax expense	4	(662)	(751)
Profit for the year		1,819	1,953

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2019 NZ$m	2018 NZ$m
Profit for the year	1,819	1,953
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	(33)	2
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised losses recognised directly in equity	(31)	(27)
Realised losses transferred to the income statement	14	5
Income tax attributable to the above items	15	6
Other comprehensive income after tax	(35)	(14)
Total comprehensive income for the year	1,784	1,939

The notes appearing on pages 8 to 64 form an integral part of these financial statements

BALANCE SHEET

As at 30 September	Note	2019 NZ$m	2018 NZ$m
Assets			
Cash and cash equivalents	7	**2,363**	2,200
Settlement balances receivable		**193**	656
Collateral paid		**2,324**	1,919
Trading securities	8	**8,942**	8,024
Derivative financial instruments	9	**11,666**	8,086
Investment securities[1]	10	**7,027**	6,502
Net loans and advances	11	**132,525**	126,466
Assets held for sale	26	**-**	897
Investments in associates		**-**	6
Deferred tax assets	4	**77**	-
Goodwill and other intangible assets	19	**3,276**	3,289
Premises and equipment		**335**	325
Other assets		**688**	642
Total assets		**169,416**	159,012
Liabilities			
Settlement balances payable		**1,607**	2,161
Collateral received		**991**	845
Deposits and other borrowings	13	**113,427**	108,008
Derivative financial instruments	9	**11,042**	8,095
Current tax liabilities		**101**	161
Deferred tax liabilities		**-**	21
Liabilities held for sale	26	**-**	334
Payables and other liabilities		**1,159**	947
Employee entitlements		**138**	120
Other provisions	20	**314**	76
Debt issuances	14	**26,207**	25,135
Total liabilities		**154,986**	145,903
Net assets		**14,430**	13,109
Equity			
Share capital	21	**11,888**	11,888
Reserves		**21**	33
Retained earnings		**2,521**	1,188
Total equity		**14,430**	13,109

[1] On adoption of NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) on 1 October 2018, the classification and measurement of financial assets were revised. The available-for-sale classification used in comparative periods ceases to exist under NZ IFRS 9 and a new classification of investment securities was introduced. Refer to Note 1 and Note 10 for further details.

For and on behalf of the Board of Directors:

Rt Hon Sir John Key, GNZM AC
Chair
12 December 2019

Mark Verbiest
Independent Non-Executive Director
12 December 2019

The notes appearing on pages 8 to 64 form an integral part of these financial statements

FINANCIAL STATEMENTS

CASH FLOW STATEMENT

For the year ended 30 September	Note	2019 NZ$m	2018 NZ$m
Profit after income tax		1,819	1,953
Adjustments to reconcile to net cash provided by/(used in) operating activities:			
Depreciation and amortisation		81	88
Loss on sale and impairment of premises and equipment		10	4
Net derivatives/foreign exchange adjustment		246	1,150
Proceeds from divestments net of intangibles disposed of, classified as investing activities		(646)	-
Other non-cash movements		(130)	(22)
Net (increase)/decrease in operating assets:			
Collateral paid		(405)	(504)
Trading securities		(918)	(361)
Net loans and advances		(6,059)	(5,927)
Other assets		1,136	(266)
Net increase/(decrease) in operating liabilities:			
Deposits and other borrowings		5,419	5,312
Settlement balances payable		(554)	390
Collateral received		146	232
Other liabilities		53	48
Total adjustments		(1,621)	144
Net cash flows from operating activities[1]		198	2,097
Cash flows from investing activities			
Investment securities:			
Purchases		(2,347)	(4,368)
Proceeds from sale or maturity		1,963	4,246
Proceeds from divestments	26	747	-
Other assets		(88)	3
Net cash flows from investing activities		275	(119)
Cash flows from financing activities			
Debt issuances:[2]			
Issue proceeds		4,010	3,385
Redemptions		(3,909)	(3,991)
Proceeds from issue of ordinary shares		-	3,000
Dividends paid		(411)	(4,611)
Net cash flows from financing activities		(310)	(2,217)
Net change in cash and cash equivalents		163	(239)
Cash and cash equivalents at beginning of year		2,200	2,439
Cash and cash equivalents at end of year		2,363	2,200

1 Net cash provided by operating activities includes income taxes paid of NZ$780 million (2018: NZ$619 million).
2 Movement in debt issuances (Note 14 Debt Issuances) also includes an NZ$418 million increase (2018: NZ$1,365 million increase) from the effect of foreign exchange rates, a NZ$657 million increase (2018: NZ$246 million decrease) from changes in fair value hedging instruments and a NZ$104 million decrease (2018: NZ$16 million increase) of other changes.

The notes appearing on pages 8 to 64 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital NZ$m	Investment securities revaluation reserve NZ$m	Cash flow hedging reserve NZ$m	Retained earnings NZ$m	Total equity NZ$m
As at 1 October 2017		8,888	5	43	3,845	12,781
Profit or loss		-	-	-	1,953	1,953
Unrealised gains / (losses) recognised directly in equity		-	8	(35)	-	(27)
Realised losses transferred to the income statement		-	-	5	-	5
Actuarial gain on defined benefit schemes		-	-	-	2	2
Income tax credit / (expense) on items recognised directly in equity		-	(2)	9	(1)	6
Total comprehensive income for the year		-	6	(21)	1,954	1,939
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary shares issued	21	3,000	-	-	-	3,000
Ordinary dividends paid	5	-	-	-	(4,600)	(4,600)
Preference dividends paid	21	-	-	-	(11)	(11)
Transactions with Immediate Parent Company in its capacity as owner		3,000	-	-	(4,611)	(1,611)
As at 30 September 2018		11,888	11	22	1,188	13,109
As at 1 October 2018		11,888	11	22	1,188	13,109
Impact on transition to NZ IFRS 9	1	-	-	-	(52)	(52)
As at 1 October 2018 (adjusted)		11,888	11	22	1,136	13,057
Profit or loss		-	-	-	1,819	1,819
Unrealised losses recognised directly in equity		-	(24)	(7)	-	(31)
Realised losses transferred to the income statement		-	-	14	-	14
Actuarial loss on defined benefit schemes		-	-	-	(33)	(33)
Income tax credit / (expense) on items recognised directly in equity		-	7	(2)	10	15
Total comprehensive income for the year		-	(17)	5	1,796	1,784
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary dividends paid	5	-	-	-	(400)	(400)
Preference dividends paid	21	-	-	-	(11)	(11)
Transactions with Immediate Parent Company in its capacity as owner		-	-	-	(411)	(411)
As at 30 September 2019		11,888	(6)	27	2,521	14,430

The notes appearing on pages 8 to 64 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS

These are the financial statements for ANZ Bank New Zealand Limited (the Bank) and its controlled entities (together, the 'Banking Group') for the year ended 30 September 2019. The Bank is incorporated and domiciled in New Zealand. The address of the Bank's registered office and its principal place of business is ANZ Centre, 23-29 Albert Street, Auckland, New Zealand.

On 12 December 2019, the Directors resolved to authorise the issue of these financial statements.

Information in the financial statements is included only to the extent we consider it material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- the amount is significant in size (quantitative factor);
- the information is significant by nature (qualitative factor);
- the user cannot understand the Banking Group's results without the specific disclosure (qualitative factor);
- the information is critical to a user's understanding of the impact of significant changes in the Banking Group's business during the period – for example: business acquisitions or disposals (qualitative factor);
- the information relates to an aspect of the Banking Group's operations that is important to its future performance (qualitative factor); or
- the information is required under legislative requirements of the Financial Markets Conduct Act 2013 or by the Banking Group's principal regulator, RBNZ.

This section of the financial statements:

- outlines the basis upon which the Banking Group's financial statements have been prepared; and
- discusses any new accounting standards or regulations that directly impact the financial statements.

BASIS OF PREPARATION

These financial statements are general purpose (Tier 1) financial statements prepared by a 'for profit' entity, in accordance with the requirements of the Financial Markets Conduct Act 2013. These financial statements comply with:

- New Zealand Generally Accepted Accounting Practice (NZ GAAP), as defined in the Financial Reporting Act 2013;
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities; and
- International Financial Reporting Standards (IFRS).

We present the financial statements of the Banking Group in New Zealand dollars, which is the Banking Group's functional and presentation currency. We have rounded values to the nearest million dollars (NZ$m), unless otherwise stated.

BASIS OF MEASUREMENT

We have prepared the financial information in accordance with the historical cost basis - except for the following assets and liabilities which we have stated at their fair value:

- derivative financial instruments;
- financial instruments measured at fair value through other comprehensive income (2018: available-for-sale financial assets); and
- financial instruments measured at fair value through profit and loss.

BASIS OF CONSOLIDATION

The consolidated financial statements of the Banking Group comprise the financial statements of the Bank and all its subsidiaries. An entity, including a structured entity, is considered a subsidiary of the group when we determine that the Bank has control over the entity. Control exists when the Banking Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. We assess power by examining existing rights that give the Banking Group the current ability to direct the relevant activities of the entity. We have eliminated, on consolidation, the effect of all transactions between entities in the Banking Group.

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the relevant functional currency at the exchange rate prevailing at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the relevant spot rate. Any foreign currency translation gains or losses that arise are included in profit or loss in the period they arise.

We measure translation differences on non-monetary items at fair value through profit or loss and report them as part of the fair value gain or loss on these items. We include any translation differences on non-monetary items classified as investment securities measured at fair value through other comprehensive income in the investment securities revaluation reserve in equity.

KEY JUDGEMENTS AND ESTIMATES

In the process of applying the Banking Group's accounting policies, management has made a number of judgements and applied estimates and assumptions about future events. Further information on the key judgements and estimates that we consider material to the financial statements are contained within the notes to the financial statements.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD

NZ IFRS 9 *FINANCIAL INSTRUMENTS* (NZ IFRS 9)

The Banking Group has applied NZ IFRS 9 from 1 October 2018 (with the exception of the 'own credit' requirements relating to financial liabilities designated as measured at fair value, which were early adopted by the Banking Group effective from 1 October 2013). In addition, the Banking Group chose to early adopt *Prepayment Features with Negative Compensation* (Amendment to NZ IFRS 9) effective from 1 October 2018. NZ IFRS 9 provides an accounting policy choice, which the Banking Group has taken in the current period, to continue to apply the NZ IAS 39 hedge accounting requirements until the International Accounting Standards Board's (IASB) ongoing project on macro hedge accounting is completed.

NZ IFRS 9 and Amendment to NZ IFRS 9 stipulate new requirements for the impairment of financial assets, classification and measurement of financial assets and financial liabilities and general hedge accounting. Details of the key requirements are outlined within the Financial Assets and Financial Liabilities sections on pages 16 and 29 respectively.

NZ IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS* (NZ IFRS 15)

The Banking Group adopted NZ IFRS 15 from 1 October 2018 which resulted in changes in accounting policies and adjustments to amounts recognised in the consolidated financial statements. The standard requires identification of distinct performance obligations within a contract, and allocation of the transaction price of the contract to those performance obligations. Revenue is then recognised as each performance obligation is satisfied. The standard also provides guidance on whether an entity is acting as a principal or an agent which impacts the presentation of revenue on a gross or net basis.

The Banking Group has assessed all revenue streams existing at the date of transition to the new standard and determined that the impact of NZ IFRS 15 is immaterial given the majority of the Banking Group's revenues are outside the scope of the standard. The Banking Group has adopted NZ IFRS 15 retrospectively including restatement of prior period comparatives.

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2019, and have not been applied by the Banking Group in preparing these financial statements.

The Banking Group has identified five standards where this applies to the Banking Group and further details are set out below:

GENERAL HEDGE ACCOUNTING

NZ IFRS 9 introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging financial and non-financial risks. NZ IFRS 9 provides the Banking Group with an accounting policy choice to continue to apply the NZ IAS 39 hedge accounting requirements until the IASB's ongoing project on macro hedge accounting is completed. The Banking Group currently applies the hedge accounting requirements of NZ IAS 39.

NZ IFRS 16 *LEASES* (NZ IFRS 16)

The Banking Group will adopt NZ IFRS 16 on 1 October 2019 replacing the previous standard NZ IAS 17 *Leases* (NZ IAS 17). NZ IFRS 16 primarily impacts the Banking Group's property and technology leases which were previously classified as operating leases. Under NZ IAS 17, operating leases were not recognised on the balance sheet and rent payments were expensed over the lease term.

Under NZ IFRS 16, lessees must recognise all leases (except for leases of low value assets and short term leases) on the balance sheet under a single accounting model. Accordingly, the Banking Group will recognise its right to use an underlying leased asset over the lease term, as a right-of-use (ROU) asset, and its obligation to make lease payments as a lease liability. In the income statement, the Banking Group will recognise depreciation expense on the ROU asset and interest expense on the lease liability. As a result, lease expenses will be higher in the early periods of a lease and lower in the later periods of the lease compared to the previous standard where expenses were constant over the lease term. Cumulative expenses over the life of a lease will not change.

NZ IFRS 16 only has minor impacts on the Banking Group's lessor arrangements in relation to sale-leaseback transactions which will be implemented prospectively.

The Banking Group will apply the modified retrospective transition approach whereby initial lease liabilities are recognised based on the present value of remaining lease payments as of the transition date. The initial ROU asset recognised for certain large commercial and retail leases are measured as if NZ IFRS 16 had always been applied to the leases. For all other leases, the initial ROU asset is measured as equal to the initial lease liability. Based on this transition approach, the Banking Group expects to recognise an increase in liabilities of NZ$332 million and an increase in assets of NZ$308 million. This is expected to result in a reduction to opening retained earnings of NZ$17 million and an increase in deferred tax assets of NZ$7 million as of 1 October 2019. Comparative information from prior periods will not be restated.

The implementation of NZ IFRS 16 requires management to make certain key judgements including the determination of lease terms, discount rates and identifying arrangements that contain a lease. These estimates may be refined as the Banking Group finalises its implementation of the standard in the first half of the 2020 financial year.

NZ IFRIC INTERPRETATION 23 *UNCERTAINTY OVER INCOME TAX TREATMENTS* (NZ IFRIC 23)

In August 2017, the External Reporting Board (XRB) issued NZ IFRIC 23. NZ IFRIC 23 clarifies application and recognition and measurement requirements in NZ IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. NZ IFRIC 23 will apply to the Banking Group from 1 October 2019, and is not expected to have a material impact on the Banking Group.

REVISED CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

In May 2018, the XRB issued a revised Conceptual Framework for Financial Reporting. The new Framework includes updated definitions and criteria for the recognition and derecognition of assets and liabilities. Additionally it introduces new concepts on measurement, including factors to consider when selecting a measurement basis. The revised Conceptual Framework for Financial Reporting will apply to the Banking Group from 1 October 2020 and is not expected to have a material impact on the Banking Group.

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

INTEREST RATE BENCHMARK REFORM

Interbank offered rates (IBORs), such as LIBOR are a key reference rate for derivative, loans and securities for global financial markets. In response to concerns about the transparency and liquidity of IBORs, regulators in a number of jurisdictions across the globe are well advanced in developing benchmark rates to phase out and replace IBORs, these projects are collectively known as 'IBOR Reform'. The IASB are considering the financial reporting implications of IBOR reform which is expected to impact elements of financial instrument accounting, including hedge accounting, loan modifications, fair value methodologies and disclosures.

The IASB project is split into two phases: Phase 1 deals with pre-placement issues (issues affecting financial reporting in the period before the replacement of IBORs); and Phase 2 deals with replacement issues (issues affecting financial reporting when existing IBORs are replaced).

In September 2019, the IASB issued a final standard, Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7, which focuses on 'pre-rate replacement issues' and provides exceptions to specific hedge accounting requirements under IAS 39 and IFRS 9 so that entities will be able to apply those hedge accounting requirements under an assumption that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. In October 2019, XRB adopted these amendments in XRB amending standard *Interest Rate Benchmark Reform*.

Although the Banking Group anticipates the new standard, once adopted, will provide certain relief in relation to hedge accounting requirements, for 30 September 2019 reporting purposes, it has considered the existing portfolio of hedge accounted relationships in light of:

- the significant uncertainty surrounding the methods and timing of transition away from IBORs; and
- ongoing application and reliance in capital markets on IBORs for financial instrument pricing.

As a result of these factors, the Banking Group has concluded that continuation of hedge accounting relationships for potentially impacted hedge relationships remains appropriate. The Banking Group is considering the new standard which is effective on 1 October 2020 but may be adopted earlier.

2. OPERATING INCOME

	Note	2019 NZ$m	2018 NZ$m
Net interest income			
Interest income by type of financial asset			
Financial assets at amortised cost		6,062	5,986
Trading securities		203	240
Investment securities		157	159
Financial assets at fair value through profit or loss		1	5
Interest income		6,423	6,390
Interest expense by type of financial liability			
Financial liabilities at amortised cost		(3,134)	(3,168)
Financial liabilities designated at fair value through profit or loss		(45)	(72)
Interest expense		(3,179)	(3,240)
Net interest income		3,244	3,150
Other operating income			
(i) Fee and commission income			
Lending fees		33	32
Non-lending fees		796	795
Commissions		65	46
Funds management income		257	250
Fee and commission income		1,151	1,123
Fee and commission expense		(485)	(463)
Net fee and commission income		666	660
(ii) Other income			
Net foreign exchange earnings and other financial instruments income		117	250
Loss on sale of mortgages to the NZ Branch		-	(1)
Gain on UDC terminated transaction		-	20
Insurance proceeds		-	20
Sale of OnePath	26	66	-
Sale of investment in Paymark Limited (Paymark)	26	39	-
Other		27	23
Other income		249	312
Other operating income		915	972
Net income from insurance business		27	149
Share of associates' profit		4	5
Operating income		4,190	4,276

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest income and expense

We recognise interest income and expense for all financial instruments, including those classified as held for trading, assets measured at fair value through other comprehensive income or designated at fair value through profit or loss in net interest income. For assets held at amortised cost we use the effective interest rate method to calculate amortised cost. The effective interest rate is the rate that discounts the stream of estimated future cash receipts or payments over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. For assets subject to prepayment, we determine their expected life on the basis of historical behaviour of the particular asset portfolio - taking into account contractual obligations and prepayment experience.

We recognise fees and costs, which form an integral part of the financial instruments (for example, loan origination fees and costs), using the effective interest rate method. This is presented as part of interest income or expense depending on whether the underlying financial instrument is a financial asset or financial liability.

OTHER OPERATING INCOME

Fee and commission income

We recognise fees or commissions:

- that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) when the significant act has been completed; and
- charged for providing ongoing services (for example, maintaining and administering existing facilities, funds management services) as income over the period the service is provided.

Net foreign exchange earnings and other financial instruments income

We recognise the following as net foreign exchange earnings and other financial instruments income:

- exchange rate differences arising on the settlement of monetary items and translation differences on monetary items translated at rates different to those at which they were initially recognised;
- fair value movements (excluding realised and accrued interest) on derivatives that we use to manage interest rate and foreign exchange risk on funding instruments not designated as accounting hedges;
- the ineffective portions of fair value hedges and cash flow hedges;
- immediately upon sale or repayment of a hedged item, the unamortised fair value adjustments in items designated as fair value hedges and amounts accumulated in equity related to designated cash flow hedges;
- fair value movements on financial assets and financial liabilities designated at fair value through profit or loss or held for trading; and
- amounts released from the investment securities revaluation reserve in equity when a debt instrument classified as FVOCI is sold.

NET INCOME FROM INSURANCE BUSINESS

We recognise:

- premiums with a regular due date as income on an accruals basis;
- claims on an accruals basis once our liability to the policyholder has been confirmed under the terms of the contract; and
- change in life insurance contract asset, net of liability for reinsurance, under the Margin of Service (MoS) model.

SHARE OF ASSOCIATES' PROFIT

The equity method is applied to accounting for associates in the consolidated financial statements. Under the equity method, the Banking Group's share of the after tax results of associates is included in the income statement and the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

3. OPERATING EXPENSES

	2019 NZ$m	2018 NZ$m
Personnel		
Salaries and related costs	858	820
Superannuation costs	29	29
Other	35	42
Personnel	922	891
Premises		
Rent	81	82
Other	72	71
Premises	153	153
Technology		
Depreciation and amortisation	48	47
Licences and outsourced services	116	126
Other	41	52
Technology (excluding personnel)	205	225
Other		
Advertising and public relations	47	43
Professional fees	64	45
Freight, stationery, postage and communication	44	44
Charges from Ultimate Parent Bank	60	52
Other	113	64
Other	328	248
Operating expenses	1,608	1,517

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

Operating expenses are recognised as services are provided to the Banking Group over the period in which an asset is consumed or once a liability is created.

SALARIES AND RELATED COSTS – ANNUAL LEAVE, LONG SERVICE LEAVE AND OTHER EMPLOYEE BENEFITS

Wages and salaries, annual leave, and other employee entitlements expected to be paid or settled within twelve months of employees rendering service are measured at their nominal amounts using remuneration rates that the Banking Group expects to pay when the liabilities are settled.

We accrue employee entitlements relating to long service leave using an actuarial calculation. It includes assumptions regarding staff departures, leave utilisation and future salary increases. The result is then discounted using market yields at the reporting date. The market yields are determined from a blended rate of high quality corporate bonds with terms to maturity that closely match the estimated future cash outflows.

If we expect to pay short term cash bonuses, then a liability is recognised when the Banking Group has a present legal or constructive obligation to pay this amount (as a result of past service provided by the employee) and the obligation can be reliably measured.

4. INCOME TAX

INCOME TAX EXPENSE

Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense recognised in profit or loss:

	2019 NZ$m	2018 NZ$m
Profit before income tax	2,481	2,704
Prima facie income tax expense at 28%	695	757
Tax effect of permanent differences:		
Imputed and non-assessable dividends	(1)	(1)
Sale of OnePath and Paymark	(29)	-
Tax provisions no longer required	(4)	(3)
Non-assessable income and non-deductible expenditure	2	(1)
Subtotal	663	752
Income tax under provided in previous years	(1)	(1)
Income tax expense	662	751
Current tax expense	740	910
Adjustments recognised in the current year in relation to the current tax of previous years	(1)	(1)
Deferred tax income relating to the origination and reversal of temporary differences	(77)	(158)
Income tax expense	662	751
Effective tax rate	26.7%	27.8%

RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

Income tax expense comprises both current and deferred taxes and is based on the accounting profit adjusted for differences in the accounting and tax treatments of income and expenses (that is, taxable income). We recognise tax expense in profit or loss except to the extent to which it relates to items recognised directly in equity and other comprehensive income, in which case we recognise directly in equity or other comprehensive income respectively.

CURRENT TAX EXPENSE

Current tax is the tax we expect to pay on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date. We recognise current tax as a liability (or asset) to the extent that it is unpaid (or refundable).

DEFERRED TAX ASSETS AND LIABILITIES

We account for deferred tax using the balance sheet method. Deferred tax arises because the accounting income is not always the same as the taxable income. This creates temporary differences, which usually reverse over time. Until they reverse, we recognise a deferred tax asset, or liability, on the balance sheet. We measure deferred taxes at the tax rates that we expect will apply to the period(s) when the asset is realised, or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

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

NOTES TO THE FINANCIAL STATEMENTS

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

Dividends	Amount per share	Total dividend NZ$m
Financial Year 2018		
Dividend paid in March 2018	23.9 cents	800
Dividend paid in April 2018	44.8 cents	1,500
Dividend paid in April 2018	31.0 cents	1,500
Dividend paid in September 2018	12.6 cents	800
Dividends paid during the year ended 30 September 2018		4,600
Financial Year 2019		
Dividend paid in March 2019	6.3 cents	400
Dividends paid during the year ended 30 September 2019		400

IMPUTATION CREDIT ACCOUNT

	2019 NZ$m	2018 NZ$m
Imputation credits available	5,660	4,919

The imputation credit balance for the Banking Group includes the imputation credit balance in relation to both the New Zealand resident imputation group and other companies in the Banking Group that are not in the New Zealand resident imputation group. The imputation credit balance available includes imputation credits that will arise from the payment of the amount of provision for income tax as at the reporting date.

6. SEGMENT REPORTING

DESCRIPTION OF SEGMENTS

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

Comparative data has been adjusted to reflect a change in the methodology for allocating earnings on capital to each segment, and other minor structure changes. While neutral at the Banking Group level, these changes have impacted net interest income, operating expenses and profit after tax at the segment level.

Retail

Retail provides a full range of banking and wealth management services to consumer, private banking and small business banking customers. We deliver our services via our internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centres.

Commercial

Commercial provides a full range of banking services including traditional relationship banking and sophisticated financial solutions through dedicated managers focusing on privately owned medium to large enterprises, the agricultural business segment, government and government related entities.

Institutional

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

- Transaction Banking provides working capital and liquidity solutions including documentary trade, supply chain financing as well as cash management solutions, deposits, payments and clearing.
- Loans & Specialised Finance provides loan products, loan syndication, specialised loan structuring and execution, project and export finance, debt structuring and acquisition finance and corporate advisory.
- Markets provide risk management services on foreign exchange, interest rates, credit, commodities, debt capital markets in addition to managing the Banking Group's interest rate exposure and liquidity position.

Other

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

6. SEGMENT REPORTING (continued)

OPERATING SEGMENTS

	Retail		Commercial		Institutional		Other		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
For the year ended 30 September	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m
Net interest income	1,798	1,817	1,057	1,004	344	320	45	9	3,244	3,150
Net fee and commission income										
- Lending fees	16	16	1	1	16	15	-	-	33	32
- Non-lending fees	714	694	16	19	62	73	4	9	796	795
- Commissions	65	46	-	-	-	-	-	-	65	46
- Funds management fees	257	250	-	-	-	-	-	-	257	250
- Fee and commission expense	(485)	(463)	-	-	-	-	-	-	(485)	(463)
Net fee and commission income	567	543	17	20	78	88	4	9	666	660
Other income	7	6	-	1	172	177	70	128	249	312
Net income from insurance business	19	131	-	-	-	-	8	18	27	149
Share of associates' profits	4	5	-	-	-	-	-	-	4	5
Other operating income	597	685	17	21	250	265	82	155	946	1,126
Operating income	2,395	2,502	1,074	1,025	594	585	127	164	4,190	4,276
Operating expenses	(1,078)	(1,032)	(274)	(258)	(216)	(182)	(40)	(45)	(1,608)	(1,517)
Profit before credit impairment and income tax	1,317	1,470	800	767	378	403	87	119	2,582	2,759
Credit impairment (charge) / release	(47)	(50)	(47)	41	(7)	(46)	-	-	(101)	(55)
Profit before income tax	1,270	1,420	753	808	371	357	87	119	2,481	2,704
Income tax expense	(354)	(396)	(211)	(227)	(104)	(100)	7	(28)	(662)	(751)
Profit after income tax	916	1,024	542	581	267	257	94	91	1,819	1,953
Financial position										
Goodwill[1]	1,039	1,109	1,052	1,052	1,069	1,069	-	-	3,160	3,230
Net loans and advances	81,789	76,843	43,464	42,446	7,270	7,166	2	11	132,525	126,466
Customer deposits	73,866	70,259	16,138	16,842	19,232	16,954	-	-	109,236	104,055

1 Including items reclassified as held for sale.

OTHER SEGMENT

The Other segment profit after income tax comprises:

	2019 NZ$m	2018 NZ$m
Central functions[1]	3	8
Technology and Group Centre[2,3]	215	20
Economic hedges	(43)	48
Revaluation of insurance policies from changes in interest rates[3]	(81)	15
Total	94	91

1 Central functions' other income for the year ended 30 September 2018 includes the NZ$20 million insurance proceeds (Note 2 Operating Income) that were received from a member of the Overseas Banking Group.

2 Technology and Group Centre's other income for the year ended 30 September 2019 includes the NZ$66 million gain on sale of OnePath and the NZ$39 million gain on sale of Paymark (Note 2 Operating Income).

3 Amounts for the year ended 30 September 2019 include the transfer of NZ$86 million of accumulated after tax gains previously recognised in revaluation of insurance policies from changes in interest rates to Technology and Group Centre. These gains were transferred upon the sale of OnePath.

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL ASSETS

CLASSIFICATION AND MEASUREMENT

Financial assets - general

There are three measurement classifications for financial assets under NZ IFRS 9: amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). Financial assets are classified into these measurement classifications on the basis of two criteria:

- the business model within which the financial asset is managed; and
- the contractual cash flow characteristics of the financial asset (specifically whether the contractual cash flows represent solely payments of principal and interest).

The resultant financial asset classifications are as follows:

- Amortised cost: financial assets with contractual cash flows that comprise solely payments of principal and interest and which are held in a business model whose objective is to collect their cash flows;
- FVOCI: financial assets with contractual cash flows that comprise solely payments of principal and interest only and which are held in a business model whose objective is to collect their cash flows or to sell the assets; and
- FVTPL: any other financial assets not falling into the categories above are measured at FVTPL.

Fair Value Option for Financial Assets

A financial asset may be irrevocably designated at FVTPL on initial recognition when the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Impact of the transition to NZ IFRS 9 from 1 October 2018

The following table summarises the changes to the measurement classifications on adoption of NZ IFRS 9:

Balance sheet presentation	NZ IAS 39	NZ IFRS 9
Net loans and advances[1]	Loans and receivables	Amortised cost
Investment securities[2] (2018: Available-for-sale assets (AFS))	AFS	FVOCI

1 Refer to Note 12 Allowance for expected credit losses for the change in the carrying amounts on transition to NZ IFRS 9 as at 1 October 2018.
2 The carrying amounts did not change on transition to NZ IFRS 9 as at 1 October 2018.

7. CASH AND CASH EQUIVALENTS

	2019 NZ$m	2018 NZ$m
Coins, notes and cash at bank	192	204
Securities purchased under agreements to resell in less than 3 months	297	136
Balances with central banks	1,448	1,734
Settlement balances receivable within 3 months	426	126
Cash and cash equivalents	**2,363**	2,200

8. TRADING SECURITIES

	2019 NZ$m	2018 NZ$m
Government securities	4,354	4,696
Corporate and financial institution securities	4,588	3,328
Trading securities	**8,942**	8,024

RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

- acquire principally for the purpose of selling in the short-term; or
- hold as part of a portfolio we manage for short-term profit making.

We recognise purchases and sales of trading securities on trade date:

- initially, we measure them at fair value; and
- subsequently, we measure them in the balance sheet at their fair value with any revaluation recognised in the profit or loss.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when applying the valuation techniques used to measure the fair value of trading securities not valued using quoted market prices. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value	Assets 2019 NZ$m	Liabilities 2019 NZ$m	Assets 2018 NZ$m	Liabilities 2018 NZ$m
Derivative financial instruments - held for trading	10,734	(9,755)	7,746	(7,023)
Derivative financial instruments - designated in hedging relationships	932	(1,287)	340	(1,072)
Derivative financial instruments	**11,666**	**(11,042)**	8,086	(8,095)

FEATURES

Derivative financial instruments are contracts:

- whose value is derived from an underlying price index (or other variable) defined in the contract – sometimes the value is derived from more than one variable;
- that require little or no initial net investment; and
- that are settled at a future date.

Movements in the price of the underlying variables, which cause the value of the contract to fluctuate, are reflected in the fair value of the derivative.

PURPOSE

The Banking Group's derivative financial instruments have been categorised as follows:

Trading	Derivatives held in order to: • meet customer needs for managing their own risks. • manage risk in the Banking Group that are not in a designated hedge accounting relationship. • undertake market making and positioning activities to generate profits from short-term fluctuations in prices or margins.
Designated in hedging relationships	Derivatives designated into hedge accounting relationships in order to minimise profit or loss volatility by matching movements to underlying positions relating to: • hedges of the Banking Group's exposures to interest rate risk and currency risk. • hedges of other exposures relating to non-trading positions.

TYPES

The Banking Group offers and uses four different types of derivative financial instruments:

Forwards	A contract documenting the rate of interest, or the currency exchange rate, to be paid or received on a notional principal amount at a future date.
Futures	An exchange traded contract in which the parties agree to buy or sell an asset in the future for a price agreed on the transaction date, with a net settlement in cash paid on the future date without physical delivery of the asset.
Swaps	A contract in which one party exchanges one series of cash flows for another.
Options	A contract in which the buyer of the contract has the right - but not the obligation - to buy (known as a "call option") or to sell (known as a "put option") an asset or instrument at a set price on a future date. The seller has the corresponding obligation to fulfil the transaction to sell or buy the asset or instrument if the buyer exercises the option.

RISKS MANAGED

The Banking Group offers and uses the instruments described above to manage fluctuations in the following market factors:

Foreign exchange	Currencies at current or determined rates of exchange.
Interest rate	Fixed or variable interest rates applying to money lent, deposited or borrowed.
Commodity	Soft commodities (that is, agricultural products such as wheat, coffee, cocoa, and sugar) and hard commodities (that is, mined products such as gold, oil and gas).
Credit	Counterparty risk in the event of default.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

The majority of the Banking Group's derivative financial instruments are held for trading. The fair value of derivative financial instruments held for trading are:

Fair value	Assets 2019 NZ$m	Liabilities 2019 NZ$m	Assets 2018 NZ$m	Liabilities 2018 NZ$m
Interest rate contracts				
Forward rate agreements	6	(6)	5	(4)
Futures contracts	10	(10)	7	(10)
Swap agreements	6,059	(4,671)	4,242	(3,920)
Options purchased	3	-	3	-
Options sold	-	-	-	(1)
Total	6,078	(4,687)	4,257	(3,935)
Foreign exchange contracts				
Spot and forward contracts	2,264	(1,785)	1,179	(889)
Swap agreements	2,340	(3,225)	2,248	(2,146)
Options purchased	35	(1)	34	(3)
Options sold	1	(35)	2	(24)
Total	4,640	(5,046)	3,463	(3,062)
Commodity contracts and credit default swaps	16	(22)	26	(26)
Derivative financial instruments - held for trading	10,734	(9,755)	7,746	(7,023)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

The Banking Group uses two types of hedge accounting relationships:

	Fair value hedge	Cash flow hedge
Objective of this hedging arrangement	To hedge our exposure to changes to the fair value of a recognised asset or liability or unrecognised firm commitment caused by interest rate or foreign currency movements.	To hedge our exposure to variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecast transaction caused by interest rate, foreign currency and other price movements.
Recognition of effective hedge portion	The following are recognised in profit or loss at the same time: • all changes in the fair value of the underlying item relating to the hedged risk; and • the change in the fair value of the derivatives.	We recognise the effective portion of changes in the fair value of derivatives designated as a cash flow hedge in the cash flow hedge reserve.
Recognition of ineffective hedge portion	Recognised immediately in other operating income.	
If a hedging instrument expires, or is sold, terminated, or exercised; or no longer qualifies for hedge accounting	When we recognise the hedged item in profit or loss, we recognise the related unamortised fair value adjustment in profit or loss. This may occur over time if the hedged item is amortised to profit or loss as part of the effective yield over the period to maturity.	Only when we recognise the hedged item in profit or loss is the amount previously deferred in the cash flow hedge reserve transferred to profit or loss.
Hedged item sold or repaid	We recognise the unamortised fair value adjustment immediately in profit or loss.	Amounts accumulated in equity are transferred immediately to profit or loss.

As outlined in Note 1, the Banking Group has continued to apply the NZ IAS 39 hedge accounting requirements until the IASB's ongoing project on macro hedge accounting is completed. However, new hedge disclosures are required in this period under NZ IFRS 7 *Financial Instruments: Disclosures* (NZ IFRS 7) which are presented below. The presentation of derivatives information for 2018 has not been amended.

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The fair value of derivative financial instruments designated in hedging relationships are:

	2019			2018	
	Nominal amount NZ$m	Assets NZ$m	Liabilities NZ$m	Assets NZ$m	Liabilities NZ$m
Fair value hedges					
Interest rate swap agreements	25,956	365	(727)	54	(819)
Cash flow hedges					
Interest rate swap agreements	37,730	567	(560)	286	(253)
Derivative financial instruments - designated in hedging relationships	63,686	932	(1,287)	340	(1,072)

The maturity profile of the nominal amounts of our hedging instruments held at 30 September 2019 is:

Nominal amount		Average rate	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
Fair value hedges							
Interest rate	Interest rate	1.88%	-	1,860	15,587	8,509	25,956
Cash flow hedges							
Interest rate	Interest rate	2.22%	531	3,010	30,561	3,628	37,730

The impact of ineffectiveness from our designated hedge relationships by type of hedge relationship and type of risk being hedged are:

	Ineffectiveness			
2019	Change in value of hedging instrument NZ$m	Change in value of hedged item NZ$m	Hedge ineffectiveness recognised in profit and loss NZ$m	Amount reclassified from the cash flow hedge reserve to profit and loss NZ$m
Fair value hedges[1]				
Interest rate	459	(464)	(5)	-
Cash flow hedges[1]				
Interest rate	(6)	7	1	14

[1] All instruments are held within derivative financial instruments.

Hedge ineffectiveness recognised is classified within other operating income. Reclassification adjustments to the statement of comprehensive income are recognised within net interest income.

Hedged items in relation to the Banking Group's fair value hedges for 30 September 2019 are as follows:

			Carrying amount		Accumulated fair value hedge adjustments on the hedged item	
	Balance sheet presentation	Hedged risk	Assets NZ$m	Liabilities NZ$m	Assets NZ$m	Liabilities NZ$m
Fixed rate loans and advances	Net loans and advances	Interest rate	1,122	-	-	-
Fixed rate debt issuances	Debt issuances	Interest rate	-	(18,784)	-	(357)
Fixed rate investment securities (FVOCI)[1]	Investment securities	Interest rate	6,745	-	259	-
Total			7,867	(18,784)	259	(357)

[1] The carrying amount of debt instruments at fair value through other comprehensive income does not include the fair value hedge adjustment as the hedged assets are measured at fair value. The accounting for the hedge relationship results in a transfer from other comprehensive income to the income statement.

The cumulative amount of fair value hedge adjustments relating to ceased hedge relationships remaining on the balance sheet is less than NZ$0.1 million.

Hedged items in relation to the Banking Group's cash flow hedges for 30 September 2019 are as follows:

		Cash flow hedge reserve	
	Hedged risk	Continuing hedges NZ$m	Discontinued hedges NZ$m
Floating rate loans and advances	Interest rate	516	(1)
Floating rate customer deposits	Interest rate	(465)	(13)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below details the reconciliation of the cash flow hedge by risk type:

	Interest rate NZ$m
Balance at 1 October 2018	22
Fair value losses	(7)
Transferred to income statement	14
Income taxes	(2)
Balance at 30 September 2019	**27**

2018 Disclosure

The impact recognised in profit or loss arising from derivative financial instruments designated in hedge accounting relationships, is as follows:

	Hedge accounting type	2018 NZ$m
Gain/(loss) recognised in other operating income		
Hedged item	Fair value	212
Hedging instrument	Fair Value	(221)

RECOGNITION AND MEASUREMENT

Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is: positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Banking Group's contractual obligations are discharged, cancelled or expired.
Impact on the income statement	How we recognise gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated into a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss. For an instrument designated into a hedging relationship the recognition of gains or losses depends on the nature of the item being hedged. Refer to the previous table on page 19 for profit or loss treatment depending on the hedge type. Sources of hedge ineffectiveness may arise from basis risk and differences in discounting between the hedged items and the hedging instruments. The hedging instruments are discounted using Overnight Index Swaps discount curves which are not applied to the hedged items.
Hedge effectiveness	To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met: • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). The Banking Group monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select the valuation techniques used to measure the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENT SECURITIES

Period	Security type	2019 Government securities NZ$m	2019 Corporate and financial institution securities NZ$m	2019 Equity securities NZ$m	2019 Total NZ$m	2018 Government securities NZ$m	2018 Corporate and financial institution securities NZ$m	2018 Equity securities NZ$m	2018 Total NZ$m
Less than 3 months		85	80	-	165	110	19	-	129
Between 3 and 12 months		119	307	-	426	616	162	-	778
Between 1 and 5 years		3,263	1,812	-	5,075	3,134	1,831	-	4,965
Greater than 5 years		1,334	26	-	1,360	458	171	-	629
No maturity		-	-	1	1	-	-	1	1
Total		4,801	2,225	1	7,027	4,318	2,183	1	6,502
Carried on balance sheet at:									
FVOCI[1]		4,801	2,225	1	7,027	-	-	-	-
Available-for-sale assets[1]		-	-	-	-	4,318	2,183	1	6,502
Total		4,801	2,225	1	7,027	4,318	2,183	1	6,502

1 On adoption of NZ IFRS 9 on 1 October 2018, the classification and measurement of financial assets were revised. The available-for-sale classification used in comparative periods ceases to exist under NZ IFRS 9 and a new classification of investment securities was introduced. Refer to Note 1 for further details.

RECOGNITION AND MEASUREMENT

Policy applicable from 1 October 2018

Investment securities are those financial assets in security form (i.e. transferable debt or equity instruments) that are not held for trading purposes. By way of exception, bills of exchange (a form of security/transferable instrument) which are used to facilitate the Banking Group's customer lending activities are classified as loans and advances (rather than investment securities) to better reflect the substance of the arrangement.

Non-trading equity instruments may be designated at FVOCI on an instrument by instrument basis. If this election is made, gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. However, gains or losses may be reclassified within equity.

Assets disclosed as investment securities are subject to the general classification and measurement policy for financial assets outlined at the commencement of the Banking Group's Financial Asset disclosures on page 16.

Policy applicable prior to 1 October 2018

AFS assets comprise non-derivative financial assets which we designate as AFS since we do not hold them principally for trading purposes. They include both equity and debt securities. AFS assets are initially recognised at fair value plus transaction costs and are revalued at least bi-annually. On revaluation, we include movements in fair value within the available-for-sale revaluation reserve in equity, except for certain items which are recognised directly in profit or loss, being interest on debt securities, dividends received, foreign exchange on debt securities and impairment charges.

When we sell the asset, any cumulative gain or loss from the available-for-sale revaluation reserve is recognised in profit or loss.

At each reporting date, we assess whether any AFS assets are impaired. We assess the impairment of any debt securities if an event has occurred which will have a negative impact on the asset's estimated cash flows. For equity securities, we assess if there is a significant or prolonged decline in fair value below cost.

If an AFS asset is impaired, then we remove the cumulative loss related to that asset from the available-for-sale revaluation reserve. We then recognise it in profit or loss for:

- debt instruments, as a credit impairment expense; and
- equity instruments, as a negative impact in other operating income.

We recognise any later reversals of impairment on debt securities in the profit or loss through the credit impairment charge line. However, we do not make any reversals of impairment for equity securities. To the extent previously impaired equity securities recover in value, gains are recognised directly in equity.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select valuation techniques used to measure the fair value of assets not valued using quoted market prices, particularly the selection of valuation inputs that are not readily observable. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

11. NET LOANS AND ADVANCES

The following table provides details of net loans and advances for the Banking Group:

	Note	2019 NZ$m	2018 NZ$m
Overdrafts		**927**	905
Credit cards		**1,569**	1,644
Term loans - housing		**84,007**	78,395
Term loans - non-housing		**44,586**	44,169
Finance lease and hire purchase receivables		**1,863**	1,791
Subtotal		**132,952**	126,904
Unearned income		**(237)**	(239)
Capitalised brokerage/mortgage origination fees		**307**	313
Gross loans and advances		**133,022**	126,978
Allowance for expected credit losses	12	**(497)**	(512)
Net loans and advances		**132,525**	126,466
Residual contractual maturity:			
- within one year		**27,816**	26,896
- after more than one year		**104,709**	99,570
Net loans and advances		**132,525**	126,466

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ$739 million as at 30 September 2019 (2018: NZ$2,210 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

RECOGNITION AND MEASUREMENT

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are facilities the Banking Group provides directly to customers or through third party channels.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the issue of the loan or advance, which are primarily brokerage/mortgage origination fees which we amortise over the estimated life of the loan. Subsequently, we then measure loans and advances at amortised cost using the effective interest rate method, net of any provision for credit impairment.

We classify contracts to lease assets and hire purchase agreements as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party.

The Banking Group enters into transactions in which it transfers financial assets that are recognised on its balance sheet. When the Banking Group retains substantially all of the risks and rewards of the transferred assets, the transferred assets remain on the Banking Group's balance sheet, however if substantially all the risks and rewards are transferred, the Banking Group derecognises the asset.

If the risks and rewards are partially retained and control over the asset is lost, then the Banking Group derecognises the asset. If control over the asset is not lost, the Banking Group continues to recognise the asset to the extent of its continuing involvement.

We separately recognise the rights and obligations retained, or created, in the transfer as assets and liabilities as appropriate.

From 1 October 2018, assets disclosed as net loans and advances are subject to the general classification and measurement policy for financial assets outlined at the commencement of the Banking Group's Financial Asset disclosures on page 16. Additionally, expected credit losses associated with loans and advances at amortised cost are recognised and measured in accordance with the accounting policies outlined in Note 12.

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES

As described in Note 1, the Banking Group adopted NZ IFRS 9 effective from 1 October 2018 which resulted in the application of an expected credit loss (ECL) model for measuring impairment of financial assets and amendments to the presentation of credit impairment information for the current year. Comparative information has not been restated.

ALLOWANCE FOR EXPECTED CREDIT LOSSES – IMPACT OF THE TRANSITION TO NZ IFRS 9

The table below reconciles the closing collective provision for credit impairment for financial assets determined in accordance with NZ IAS 39, and provisions for loan commitments and financial guarantee contracts in accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as at 30 September 2018, and the opening provisions for credit impairment determined in accordance with NZ IFRS 9 as at 1 October 2018.

Collective provision reconciliation	Net loans and advances NZ$m	Off-balance sheet credit related commitments NZ$m	Total NZ$m
As at 30 September 2018	311	71	382
Impact on transition to NZ IFRS 9[1]	60	12	72
As at 1 October 2018	371	83	454
Collective credit impairment charge	29	3	32
As at 30 September 2019	400	86	486

1 The increase in allowance for expected credit losses resulted in an increase in deferred tax assets of NZ$20 million and a decrease in retained earnings of NZ$52 million..

ALLOWANCE FOR EXPECTED CREDIT LOSSES – BALANCE SHEET

The following tables present the movement in the allowance for ECL for the year ended 30 September 2019.

	Net loans and advances		Off-balance sheet credit related commitments[1]		Total	
Provision for credit impairment	30 Sep 19 NZ$m	30 Sep 18 NZ$m	30 Sep 19 NZ$m	30 Sep 18 NZ$m	30 Sep 19 NZ$m	30 Sep 18 NZ$m
Individual provision[2]	97	130	11	-	108	130
Collective provision[3]	400	311	86	71	486	382
Total provision for credit impairment	497	441	97	71	594	512

1 Individual and collective provision relating to off-balance sheet credit related commitments is included in provisions from 1 October 2018.
2 Individual provision comprises Stage 3 ECL assessed individually from 1 October 2018.
3 Collective provision comprises Stage 1, 2 and 3 ECL assessed collectively from 1 October 2018.

Net loans and advances - at amortised cost
Allowance for ECL is included in net loans and advances.

			Stage 3		
	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	160	171	40	130	501
Transfer between stages	29	(40)	3	8	-
New and increased provisions (net of collective provision releases)	(25)	63	(1)	121	158
Write-backs	-	-	-	(48)	(48)
Recoveries of amounts previously written off	-	-	-	(23)	(23)
Credit impairment charge	4	23	2	58	87
Bad debts written-off (excluding recoveries)	-	-	-	(106)	(106)
Add back recoveries of amounts previously written off	-	-	-	23	23
Discount unwind	-	-	-	(8)	(8)
As at 30 September 2019	164	194	42	97	497

Off-balance sheet credit related commitments - undrawn and contingent facilities
Allowance for ECL is included in other provisions.

As at 1 October 2018	59	22	2	-	83
Transfer between stages	5	(5)	-	-	-
New and increased provisions (net of collective provision releases)	(4)	7	-	11	14
Credit impairment charge	1	2	-	11	14
As at 30 September 2019	60	24	2	11	97

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

Explanation of how changes in the gross carrying amounts of gross loans and advances contributed to changes in loss allowance

Overall, loss allowances on gross loans and advances have remained stable at approximately 0.4% of gross loans and advances. Loss allowances have increased by NZ$10 million (2%) driven by an increase in the proportion of gross loans and advances in Stage 2 and Stage 3, offset by a net decrease in Stage 3 individually assessed exposures as a result of amounts written-off.

2018 Provision for credit impairment disclosure under NZ IAS 39

The below disclosure does not reflect the adoption of NZ IFRS 9 and is prepared under the requirements of the previous NZ IAS 39. All provisions for credit impairment were recognised in net loans and advances until 30 September 2018.

Provision for credit impairment for the year ended 30 September 2018	Net loans and advances NZ$m	Off-balance sheet credit related commitments NZ$m	Total NZ$m
Individual provision			
Balance at start of year	152	-	152
New and increased provisions	213	-	213
Write-backs	(83)	-	(83)
Bad debts written off (excluding recoveries)	(149)	-	(149)
Discount unwind	(3)	-	(3)
Total individual provision	130	-	130
Collective provision			
Balance at start of year	343	84	427
Release to profit or loss	(32)	(13)	(45)
Total collective provision	311	71	382
Total provision for credit impairment	441	71	512

CREDIT IMPAIRMENT CHARGE – INCOME STATEMENT

Credit impairment charge analysis under NZ IFRS 9.

	2019 NZ$m
New and increased provisions	
- Collectively assessed	32
- Individually assessed	140
Write-backs	(48)
Recoveries of amounts previously written-off	(23)
Total credit impairment charge	101

2018 credit impairment charge analysis under NZ IAS 39

The below disclosure does not reflect the adoption of NZ IFRS 9 and is prepared under the requirements of the previous NZ IAS 39.

	2018 NZ$m
New and increased provisions	213
Write-backs	(83)
Recoveries of amounts previously written-off	(30)
Individual credit impairment charge	100
Collective credit impairment release	(45)
Total credit impairment charge	55

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

Policy applicable from 1 October 2018

EXPECTED CREDIT LOSS IMPAIRMENT MODEL

The measurement of expected credit losses reflects an unbiased, probability weighted prediction which evaluates a range of scenarios and takes into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Expected credit losses are either measured over 12 months or the expected lifetime of the financial asset, depending on credit deterioration since origination, according to the following three-stage approach:

- Stage 1: At the origination of a financial asset, and where there has not been a significant increase in credit risk (SICR) since origination, an allowance equivalent to 12 months ECL is recognised reflecting the expected credit losses resulting from default events that are possible within the next 12 months from the reporting date. For instruments with a remaining maturity of less than 12 months, expected credit losses are estimated based on default events that are possible over the remaining time to maturity.
- Stage 2: Where there has been a significant increase in credit risk since origination, an allowance equivalent to lifetime ECL is recognised reflecting expected credit losses resulting from all possible default events over the expected life of a financial instrument. If credit risk were to improve in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure returns to a Stage 1 classification and a 12 month ECL applies.
- Stage 3: Where there is objective evidence of impairment, an allowance equivalent to lifetime ECL is recognised.

Expected credit losses are estimated on a collective basis for exposures in Stage 1 and Stage 2, and on either a collective or individual basis when transferred to Stage 3.

MEASUREMENT OF EXPECTED CREDIT LOSSES

ECL is calculated as the product of the following credit risk factors at a facility level, discounted to incorporate the time value of money:

- Probability of default (PD) – the estimate of the likelihood that a borrower will default over a given period;
- Exposure at default (EAD) – the expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional drawdowns and accrued interest; and
- Loss given default (LGD) – the expected loss in the event of the borrower defaulting, expressed as a percentage of the facility's EAD, taking into account direct and indirect recovery costs.

These credit risk factors are adjusted for current and forward looking information through the use of macro-economic variables.

EXPECTED LIFE

When estimating ECL for exposures in Stage 2 and 3, the Banking Group considers the expected lifetime over which it is exposed to credit risk.

For non-retail portfolios, the Banking Group uses the maximum contractual period as the expected lifetime for non-revolving credit facilities. For non-retail revolving credit facilities, such as corporate lines of credit, the expected life reflects the Banking Group's contractual right to withdraw a facility as part of a contractually agreed annual review, after taking into account the applicable notice period.

For retail portfolios, the expected lifetime is determined using behavioural term, taking into account expected repayment behaviour and substantial modifications.

DEFINITION OF DEFAULT, CREDIT IMPAIRED AND WRITE-OFFS

The definition of default used in measuring expected credit losses is aligned to the definition used for internal credit risk management purposes across all portfolios. This definition is also in line with the regulatory definition of default. Default occurs when there are indicators that a debtor is unlikely to fully satisfy contractual credit obligations to the Banking Group, or the exposure is 90 days past due.

Financial assets, including those that are well secured, are considered credit impaired for financial reporting purposes when they default.

When there is no realistic probability of recovery, loans are written off against the related impairment allowance on completion of the Banking Group's internal processes and when all reasonably expected recoveries have been collected. In subsequent periods, any recoveries of amounts previously written-off are credited to credit impairment charge in the income statement.

MODIFIED FINANCIAL ASSETS

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one for either credit or commercial reasons, an assessment is made to determine if the changes to the terms of the existing financial asset are considered substantial. This assessment considers both changes in cash flows arising from the modified terms as well as changes in the overall instrument risk profile; for example, changes in the principal (credit limit), term, or type of underlying collateral. Where a modification is considered non-substantial, the existing financial asset is not derecognised and its date of origination continues to be used to determine SICR. Where a modification is considered substantial, the existing financial asset is derecognised and a new financial asset is recognised at its fair value on the modification date, which also becomes the date of origination used to determine SICR for this new asset.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

SIGNIFICANT INCREASE IN CREDIT RISK

Stage 2 assets are those that have experienced a SICR since origination. In determining what constitutes a SICR, the Banking Group considers both qualitative and quantitative information:

- Internal credit rating grade
  For the majority of portfolios, the primary indicator of a SICR is a significant deterioration in the internal credit rating grade of a facility since origination and is measured by application of thresholds.

  For non-retail portfolios, a SICR is determined by comparing the Customer Credit Rating (CCR) applicable to a facility at reporting date to the CCR at origination of that facility. A CCR is assigned to each borrower which reflects the probability of default of the borrower and incorporates both borrower and non-borrower specific information, including forward looking information. CCRs are subject to review at least annually or more frequently when an event occurs which could affect the credit risk of the customer.

  For retail portfolios, a SICR is determined by comparing each facility's scenario weighted lifetime probability of default at the reporting date to the scenario weighted lifetime probability of default at origination. The scenario weighted lifetime probability of default may increase significantly if:

  - there has been a deterioration in the economic outlook, or an increase in economic uncertainty; or
  - there has been a deterioration in the customer's overall credit position, or ability to manage their credit obligations.

- Backstop criteria
  The Banking Group uses 30 days past due arrears as a backstop criteria for both non-retail and retail portfolios. For retail portfolios only, facilities are required to demonstrate three to six months of good payment behaviour prior to being allocated back to Stage 1.

FORWARD LOOKING INFORMATION

Forward looking information is incorporated into both our assessment of whether a financial asset has experienced a significant increase in credit risk since its initial recognition and in our estimate of ECL. In applying forward looking information for estimating ECL, the Banking Group considers four probability-weighted forecast economic scenarios as follows:

- Base case scenario
  The base case scenario is our view of the most likely future macro-economic conditions. It reflects management's assumptions used for strategic planning and budgeting, and also informs the Banking Group's Internal Capital Adequacy Assessment Process (ICAAP) which is the process the Banking Group applies in strategic and capital planning over a 3 year time horizon;

- Upside and Downside scenarios
  The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic events and uncertainty over the long term horizons; and

- Severe downside scenario
  The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe impact of less likely extremely adverse economic conditions. It reflects macro-economic conditions of a downturn economic event with a probability of occurrence once every 25 years.

The four scenarios are described in terms of macro-economic variables used in the PD, LGD and EAD models (collectively the ECL models) depending on the portfolio and country of the borrower. Examples of the variables include unemployment rates, GDP growth rates, house price indices, commercial property price indices and consumer price indices.

Probability weighting each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario, as well as specific portfolio considerations where required.

Where applicable, adjustments may be made to account for situations where known or expected risks have not been adequately addressed in the modelling process.

ECL Sensitivity

The table below illustrates the impact on the Banking Group's ECL allowance under scenarios where a 100% weighting is applied to both upside and downside scenarios with all other modelling assumptions remaining constant.

	Collective ECL NZ$m	Impact NZ$m
100% upside scenario	371	(115)
100% downside scenario	548	62

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

Policy applicable prior to 1 October 2018

The Banking Group recognises two types of impairment provisions for its loans and advances:

- individual provisions for significant assets that are assessed to be impaired; and
- collective provisions for portfolios of similar assets that are assessed collectively for impairment.

The accounting treatment for each of them is detailed below:

	Individually	Collectively
Assessment	If any impaired loans and advances exceed specified thresholds and an impairment event has been identified, then we assess the need for a provision individually.	To allow for any small value loans and advances where losses may have been incurred but not yet identified, and individually significant loans and advances that we do not assess as impaired, we assess them collectively in pools of assets with similar risk characteristics.
Impairment	Loans and advances are assessed as impaired if we have objective evidence that we may not recover principal or interest payments (that is, a loss event has been incurred).	We estimate the provision on the basis of historical loss experience for assets with similar credit risk characteristics to others in the respective collective pool. We adjust the historical loss experience based on current observable data – such as: changing economic conditions, the impact of the inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.
Measurement	We measure impairment loss as the difference between the asset's carrying amount and estimated future cash flows discounted to their present value at the asset's original effective interest rate. We record the result as an expense in profit or loss in the period we identify the impairment and recognise a corresponding reduction in the carrying amount of loans and advances through an offsetting provision.	
Uncollectable amounts	If a loan or advance is uncollectable (whether partially or in full), then we write off the balance (and also any related provision for credit impairment). We write off unsecured retail facilities at the earlier of the facility becoming 180 days past due, or the customer's bankruptcy or similar legal release from the obligation to repay the loan or advance. For secured facilities, write offs occur net of the proceeds determined to be recoverable from the realisation of collateral.	
Recoveries	If we recover any cash flows from loans and advances we have previously written off, then we recognise the recovery in profit or loss in the period the cash flows are received.	
Off-balance sheet amounts	Any off-balance sheet items, such as loan commitments, are considered for impairment both on an individual and collective basis.	

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES

Applicable from 1 October 2018

When estimating the allowance for expected credit losses for loans and advances, we used management's judgement in respect of the matters outlined below.

	Key judgements
Determining when a significant increase in credit risk has occurred	In the measurement of ECL, judgement is involved in setting the rules to determine whether there has been a SICR since initial recognition of a loan, resulting in the financial asset moving from Stage 1 to Stage 2. This is a key area of judgement as transition from Stage 1 to Stage 2 increases the ECL calculation from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk combined with transition from Stage 2 to Stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. The Banking Group monitors the effectiveness of SICR criteria on an ongoing basis.
Measuring both 12-month and lifetime credit losses	The PD, LGD, and EAD credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity. In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL. All other things being equal, an increase in the expected behavioural life will increase the amount of ECL.
Forecasting forward-looking scenarios	Our forecast of forward-looking information variables is established from a "base case" or most likely scenario that is used internally by management for planning and forecasting purposes. The expected outcomes of key economic drivers for the base case scenario as at 30 September 2019 are as follows: **New Zealand** GDP growth is forecast to improve modestly over the forecast period, with the unemployment rate remaining stable. Residential property values are expected to achieve modest levels of growth. Commercial property prices are expected to grow, however, the growth rate is expected to be modest through the forecast period. The consumer price index is expected to rise modestly.
Probability weighting of each scenario	Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario, as well as specific portfolio considerations where required.
Management temporary adjustments	Management temporary adjustments to the ECL allowance are adjustments we use in circumstances where we judge that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised.

Applicable prior to 1 October 2018

When we measured impairment of loans and advances, we used management's judgement of the extent of losses at reporting date.

	Individually	Collectively
Key judgements	• estimated future cash flows • business prospects for the customer • realisable value of any collateral • the Banking Group's position relative to other claimants • reliability of customer information • likely cost and duration of recovering loans	• estimated future cash flows • historical loss experience of assets with similar risk characteristics • impact of large concentrated losses inherent in the portfolio • assessment of the economic cycle

We regularly reviewed our key judgements and updated them to reflect actual loss experience.

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL LIABILITIES

CLASSIFICATION AND MEASUREMENT

Financial liabilities

Financial liabilities are measured at amortised cost, or fair value through profit or loss (when they are held for trading). Additionally, financial liabilities can be designated at FVTPL where:

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- a group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- the financial liability contains one or more embedded derivatives unless:
  - the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract; or
  - the embedded derivative is closely related to the host financial liability.

Where financial liabilities are designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income, except where doing so would create or enlarge an accounting mismatch in profit or loss. This section of the standard was early adopted by the Banking Group on 1 October 2013.

13. DEPOSITS AND OTHER BORROWINGS

	Note	2019 NZ$m	2018 NZ$m
Term deposits		54,984	51,298
On demand and short term deposits		42,329	41,602
Deposits not bearing interest		11,795	10,224
UDC secured investments	17	128	931
Total customer deposits		109,236	104,055
Certificates of deposit		1,484	910
Commercial paper		2,461	2,486
Deposits from banks and securities sold under repurchase agreements		203	517
Deposits from Immediate Parent Company and NZ Branch	27	43	40
Deposits and other borrowings		113,427	108,008
Residual contractual maturity:			
- to be settled within 1 year		109,696	103,492
- to be settled after 1 year		3,731	4,516
Deposits and other borrowings		113,427	108,008
Carried on balance sheet at:			
Amortised cost		110,966	105,522
Fair value through profit or loss (designated on initial recognition)		2,461	2,486
Deposits and other borrowings		113,427	108,008

RECOGNITION AND MEASUREMENT

For deposits and other borrowings that:

- are not designated at fair value through profit or loss on initial recognition, we measure them at amortised cost and recognise their interest expense using the effective interest rate method; and
- are managed on a fair value basis, reduce or eliminate an accounting mismatch or contain an embedded derivative, we designate them as fair value through profit or loss.

Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for details of the split between amortised cost and fair value.

For deposits and other borrowings designated at fair value we recognise the amount of fair value gain or loss attributable to changes in the Banking Group's own credit risk in other comprehensive income in retained earnings. Any remaining amount of fair value gain or loss we recognise directly in profit or loss. Once we have recognised an amount in other comprehensive income, we do not later reclassify it to profit or loss.

Securities sold under repurchase agreements represent a liability to repurchase the financial assets that remain on our balance sheet since the risks and rewards of ownership remain with the Banking Group. Over the life of the repurchase agreement, we recognise the difference between the sale price and the repurchase price and charge it to interest expense in the income statement.

14. DEBT ISSUANCES

The Banking Group uses a variety of funding programmes to issue unsubordinated debt (including senior debt and covered bonds) and subordinated debt. The difference between unsubordinated debt and subordinated debt is that holders of unsubordinated debt take priority over holders of subordinated debt owed by the relevant issuer and subordinated debt will be repaid by the relevant issuer only after the repayment of claims of depositors, other creditors and the senior debt holders.

	2019 NZ$m	2018 NZ$m
Senior debt	19,307	18,767
Covered bonds	4,460	3,929
Total unsubordinated debt	23,767	22,696
Subordinated debt (Additional Tier 1 capital)	2,440	2,439
Total debt issued	26,207	25,135

TOTAL DEBT ISSUED BY CURRENCY

The table below shows the Banking Group's issued debt by currency of issue, which broadly represents the debt holders' base location.

		2019 NZ$m	2018 NZ$m
AUD	Australian Dollars	48	45
EUR	Euro	8,200	6,740
JPY	Japanese Yen	-	36
NZD	New Zealand Dollars	6,160	6,654
CHF	Swiss Francs	1,522	1,658
USD	United States Dollars	10,277	10,002
Total debt issued		26,207	25,135
Residual contractual maturity:			
- to be settled within 1 year		4,580	3,835
- to be settled after 1 year		21,627	21,300
Total debt issued		26,207	25,135

Covered bonds are guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust (the Covered Bond Trust). The Covered Bond Trust is a member of the Banking Group, whereas the Covered Bond Guarantor is not a member of the Banking Group.

SUBORDINATED DEBT

Certain subordinated debt qualifies as regulatory capital for the Banking Group and is classified as Additional Tier 1 (AT1) capital for RBNZ's capital adequacy purposes depending on their term and conditions:

- AT1 Capital: perpetual capital instruments such as:
  - ANZ NZ Capital Notes (ANZ NZ CN);
  - ANZ NZ Internal Capital Notes 1 (ANZ NZ ICN); and
  - ANZ NZ Internal Capital Notes 2 (ANZ NZ ICN2).

NOTES TO THE FINANCIAL STATEMENTS

14. DEBT ISSUANCES (continued)

AT1 Capital

AT1 capital notes are fully paid convertible non-cumulative perpetual subordinated notes. The AT1 capital notes rank equally with each other and with the Bank's preference shares. Holders of AT1 capital notes do not have any right to vote in general meetings of the Bank.

As at 30 September 2019, ANZ NZ CN carried a BB+ credit rating from S&P Global Ratings. On 24 October 2019, S&P Global Ratings revised the credit rating on ANZ NZ CN from BB+ to BBB-.

AT1 capital notes are classified as debt given there are circumstances beyond the Bank's control where the principal is converted into a variable number of ordinary shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) or the Ultimate Parent Bank (ANZ NZ CN).

Interest payments on the AT1 capital notes are non-cumulative and subject to the issuer's absolute discretion and certain payment conditions (including regulatory requirements).

Where specified, AT1 capital notes provide the Bank with an early redemption or conversion option on a specified date and in certain other circumstances (such as a tax or regulatory event). This option is subject to RBNZ's and, in respect of the ANZ NZ CN, APRA's prior written approval.

Each of the AT1 capital notes will immediately convert into a variable number of ordinary shares of the:

- Bank based on the net assets per share in the Bank's most recently published Disclosure Statement (ANZ NZ ICN and ANZ NZ ICN2); or
- Ultimate Parent Bank based on the average market price of the Ultimate Parent Bank's ordinary shares immediately prior to conversion less a 1% discount, subject to a maximum conversion number (ANZ NZ CN)

if:

- the Banking Group's, or in the case of the ANZ NZ CN the Overseas Banking Group's Level 2, common equity tier 1 capital ratio is equal to or less than 5.125% - known as a Common Equity Capital Trigger Event; or
- RBNZ directs the Bank to convert or write-off the notes or a statutory manager is appointed to the Bank and decides that the Bank must convert or write-off the notes or, in the case of the ANZ NZ CN, APRA notifies the Ultimate Parent Bank that, without the conversion or write-off of certain securities or a public injection of capital (or equivalent support), it considers that the Ultimate Parent Bank would become non-viable – known as a Non-Viability Trigger Event.

Where specified, AT1 capital notes mandatorily convert into a variable number of ordinary shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) (based on the net assets per share in the Bank's most recently published Disclosure Statement) or the Ultimate Parent Bank (ANZ NZ CN) (based on the average market value of the shares immediately prior to conversion less a 1% discount):

- on a specified mandatory conversion date; or
- on an earlier date under certain circumstances as set out in the terms.

However, the mandatory conversion is deferred for a specified period if certain conversion tests are not met.

The table below show the key details of the AT1 capital notes on issue at 30 September in both the current and the prior year:

	ANZ NZ CN	ANZ NZ ICN	ANZ NZ ICN2
Issuer	The Bank	The Bank	The Bank
Issue date	31 March 2015	5 March 2015	15 June 2016
Issue amount	NZ$500 million	NZ$1,003 million	NZ$938 million
Face value	NZ$1	NZ$100	NZ$100
Interest frequency	Quarterly in arrears	Semi-annually in arrears	Semi-annually in arrears
Interest rate	Fixed at 7.2% p.a. until 25 May 2020. Resets in May 2020 to a floating rate: (New Zealand 3 month Bank bill rate + 3.5%)	Floating rate: (New Zealand 6 month Bank Bill rate + 3.8%)	Floating rate: (New Zealand 6 month Bank Bill rate + 6.29%)
Issuer's early redemption or conversion option	25 May 2020	24 March 2023	15 June 2026 and each 5th anniversary
Mandatory conversion date	25 May 2022	24 March 2025	n/a
Common equity capital trigger event	Yes	Yes	Yes
Non-viability trigger event	Yes	Yes	Yes
Carrying value as at 30 September 2019 (net of issue costs)	NZ$499 million	NZ$1,003 million	NZ$938 million

RECOGNITION AND MEASUREMENT

Debt issuances are measured at amortised cost. Where the Banking Group enters into a fair value hedge accounting relationship, the fair value attributable to the hedge risk is reflected in adjustments to the carrying value of the debt. Interest expense is recognised using the effective interest rate method.

Subordinated debt with capital-based conversion features (i.e. Common Equity Capital Trigger Event or Non-Viability Trigger Events) are considered to contain embedded derivatives that we account for separately at fair value through profit and loss. The embedded derivatives arise because the amount of shares issued on conversion following any of those trigger events is subject to the maximum conversion number, however they have no value as of the reporting date given the remote nature of those triggering events.

15. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

The use of financial instruments is fundamental to the Banking Group's businesses of providing banking and other financial services to our customers. The associated financial risks (primarily credit, market, and liquidity risks) are a significant portion of the Banking Group's principal risks.

This note details the Banking Group's financial risk management policies, processes and quantitative disclosures in relation to the key financial risks:

Principal financial risks	Key sections applicable to this risk
Overview	• An overview of our Risk Management Framework
Credit risk The risk of financial loss from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in financial loss. Credit risk incorporates the risks associate with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies.	• Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management
Market risk The risk to the Banking Group's earnings arising from: • changes in any interest rates, foreign exchanges rates, credit spreads, volatility and correlations; or • fluctuations in bond, commodity or equity prices.	• Market risk overview, management and control responsibilities • Measurement of market risk • Traded and non-traded market risk • Foreign currency risk – structural exposure
Liquidity and funding risk The risk that the Banking Group is unable to meet its payment obligations when they fall due, including: • repaying depositors or maturing wholesale debt; or • the Banking Group having insufficient capacity to fund increases in assets.	• Liquidity risk overview, management and control responsibilities • Key areas of measurement for liquidity risk • Liquidity portfolio management • Funding position • Residual contractual maturity analysis of the Banking Group's liabilities

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

This overview is provided to aid the users of the financial statements to understand the context of the financial disclosures required under NZ IFRS 7.

The Board is responsible for establishing and overseeing the Banking Group's Risk Management Framework (RMF). The Board has delegated authority to the Bank's Board Risk Committee (BRC) to develop and monitor compliance with the Banking Group's financial risk management policies. The BRC reports regularly to the Board on its activities.

The Board approves the strategic objectives of the Banking Group including:

- the Risk Appetite Statement (RAS), which sets out the Board's expectations regarding the degree of risk that the Banking Group is prepared to accept in pursuit of its strategic objectives and business plan; and
- the Risk Management Strategy (RMS), which describes the Banking Group's strategy for managing risks and the key elements of the RMF that gives effect to this strategy. This includes a description of each material risk, and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how the Banking Group identifies measures, evaluates, monitors, reports and controls or mitigates material risks.

The Banking Group, through its training and management standards and procedures, aims to maintain a disciplined and robust control environment in which all employees understand their roles and obligations. At the Banking Group, risk is everyone's responsibility.

The Banking Group has an independent risk management function, headed by the Chief Risk Officer who:

- is responsible for overseeing the risk profile and the risk management framework;
- can effectively challenge activities and decisions that materially affect the Banking Group's risk profile; and
- has an independent reporting line to the BRC to enable the appropriate escalation of issues of concern.

Internal Audit Function

Internal Audit is a function independent of management whose role is to provide the Board and management with an effective and independent appraisal of the internal controls established by management. Operating under a Board approved Charter, the reporting line for the outcomes of work conducted by Internal Audit is direct to the Chair of the Audit Committee, with a direct communication line to the Chief Executive Officer and the external auditor. The Internal Audit Plan is developed using a risk based approach and is reviewed quarterly. The Audit Committee approves the plan.

All audit activities are conducted in accordance with local and international auditing standards, and the results of the activities are reported to the Audit Committee and management. These results influence the performance assessment of business heads. Furthermore, Internal Audit monitors the remediation of audit issues and reports the current status of any outstanding audits.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Granting credit facilities to customers is one of the Banking Group's major sources of income. As this activity is also a principal risk, the Banking Group dedicates considerable resources to its management. The Banking Group assumes credit risk in a wide range of lending and other activities in diverse markets and in many jurisdictions. Credit risks arise from traditional lending to customers as well as from inter-bank, treasury, trade finance and capital markets activities around the world.

Our credit risk management framework ensures we apply a consistent approach across the Banking Group when we measure, monitor and manage the credit risk appetite set by the Board. The Board is assisted and advised by the BRC in discharging its duty to oversee credit risk. The BRC:

- sets the credit risk appetite and credit strategies; and
- approves credit transactions beyond the discretion of executive management.

We quantify credit risk through an internal credit rating system (masterscales) to ensure consistency across exposure types and to provide a consistent framework for reporting and analysis. The system uses models and other tools to measure the following for customer exposures:

Probability of Default (PD)	Expressed by a Customer Credit Rating (CCR), reflecting the Banking Group's assessment of a customer's ability to service and repay debt.
Exposure at Default (EAD)	The expected amount of loan outstanding at the time of default.
Loss Given Default (LGD)	Expressed by a Security Indicator (SI) ranging from A to G. The SI is calculated by reference to the percentage of loan covered by security which the Banking Group can realise if a customer defaults. The A-G scale is supplemented by a range of other SIs which cover such factors as cash cover and sovereign backing. For retail and some small business lending, we group exposures into large homogenous pools – and the LGD is assigned at the pool level.

Our specialist credit risk teams develop and validate the Banking Group's PD and LGD rating models. The outputs from these models drive our day-to-day credit risk management decisions including origination, pricing, approval levels, regulatory capital adequacy, internal capital allocation, and credit provisioning.

All customers with whom the Banking Group has a credit relationship are assigned a CCR at origination via either of the following assessment approaches:

Large and more complex lending	Retail and some small business lending
Rating models provide a consistent and structured assessment, with judgement required around the use of out-of-model factors. We handle credit approval on a dual approval basis, jointly with the business writer and an independent credit officer.	Automated assessment of credit applications using a combination of scoring (application and behavioural), policy rules and external credit reporting information. If the application does not meet the automated assessment criteria, then it is referred out for manual assessment.

We use the Banking Group's internal CCR to manage the credit quality of financial assets. To enable wider comparisons, the Banking Group's CCRs are mapped to external rating agency scales as follows:

Credit quality description	Internal CCR	The Banking Group customer requirements	Moody's Rating	S&P Global Ratings
Strong	CCR 0+ to 4-	Demonstrated superior stability in their operating and financial performance over the long-term, and whose earnings capacity is not significantly vulnerable to foreseeable events.	Aaa – Baa3	AAA – BBB-
Satisfactory	CCR 5+ to 6-	Demonstrated sound operational and financial stability over the medium to long-term even though some may be susceptible to cyclical trends or variability in earnings.	Ba1 – B1	BB+ – B+
Weak	CCR 7+ to 8=	Demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.	B2 – Caa	B - CCC
Defaulted	CCR 8- to 10	When doubt arises as to the collectability of a credit facility, the financial instrument (or 'the facility') is classified as defaulted.	n/a	n/a

15. FINANCIAL RISK MANAGEMENT (continued)

The Banking Group has adopted NZ IFRS 9 effective from 1 October 2018 which has resulted in changes to the classification and measurement of financial assets, including the impairment of financial assets. The presentation of credit risk information for 2019 has been amended. Refer to Note 1 for further details on key requirements and impacts of the changes due to the adoption of NZ IFRS 9.

MAXIMUM EXPOSURE TO CREDIT RISK

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity instruments which are primarily subject to market risk, or bank notes and coins.

For undrawn facilities, this maximum exposure to credit risk is the full amount of the committed facilities. For contingent exposures, the maximum exposure to credit risk is the maximum amount the Banking Group would have to pay if the instrument is called upon.

For the purpose of this note, assets presented as held for sale in the balance sheet have been reallocated to their respective balance sheet categories.

The table below shows our maximum exposure to credit risk of on-balance sheet and off-balance sheet positions before taking account of any collateral held or other credit enhancements.

	Reported		Excluded[1] / Other[2]		Maximum exposure to credit risk	
	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m
On-balance sheet positions						
Net loans and advances[2]	**132,525**	126,466	**-**	(71)	**132,525**	126,537
Other financial assets:						
Cash and cash equivalents	**2,363**	2,200	**192**	204	**2,171**	1,996
Settlement balances receivable	**193**	656	**-**	-	**193**	656
Collateral paid	**2,324**	1,919	**-**	-	**2,324**	1,919
Trading securities	**8,942**	8,024	**-**	-	**8,942**	8,024
Derivative financial instruments	**11,666**	8,086	**-**	-	**11,666**	8,086
Investment securities	**7,027**	6,502	**-**	-	**7,027**	6,502
Other financial assets[3,4]	**622**	719	**-**	-	**622**	719
Total other financial assets	**33,137**	28,106	**192**	204	**32,945**	27,902
Subtotal	**165,662**	154,572	**192**	133	**165,470**	154,439
Off-balance sheet commitments						
Undrawn and contingent facilities[2,5]	**29,253**	30,105	**-**	71	**29,253**	30,034
Total	**194,915**	184,677	**192**	204	**194,723**	184,473

1 Excluded comprises bank notes and coins and cash at bank within cash and cash equivalents.
2 Other relates to the transfer of individual and collective provisions related to off-balance sheet facilities held in net loans and advances. The provisions are transferred for the purposes of showing the maximum exposure to credit risk by relevant facility type in this and the following tables.
3 Including items reclassified as held for sale.
4 Other financial assets mainly comprise accrued interest, insurance receivables and acceptances.
5 Undrawn facilities and contingent facilities include guarantees, letters of credit and performance related contingencies, net of allowance for expected credit losses.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT QUALITY

An analysis of the Banking Group's credit risk exposure is presented in the following tables based on the Banking Group's internal rating by stage without account of the effects of any collateral or other credit enhancements.

Net loans and advances

As at 30 September 2019	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
Strong	95,589	2,270	-	-	97,859
Satisfactory	26,402	4,621	-	-	31,023
Weak	1,224	2,117	-	-	3,341
Defaulted	-	-	444	285	729
Subtotal	123,215	9,008	444	285	132,952
Allowance for ECL	(164)	(194)	(42)	(97)	(497)
Net loans and advances at amortised cost	123,051	8,814	402	188	132,455
Coverage ratio	0.13%	2.15%	9.46%	34.04%	0.37%
Unearned income					(237)
Capitalised brokerage/mortgage origination fees					307
Net carrying amount					132,525

Other financial assets

As at 30 September 2019	Total NZ$m
Strong	32,342
Satisfactory	575
Weak	28
Defaulted	-
Total carrying amount	32,945

Off-balance sheet commitments - undrawn and contingent facilities

As at 30 September 2019	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
Strong	23,296	59	-	-	23,355
Satisfactory	4,883	641	-	-	5,524
Weak	312	137	-	-	449
Defaulted	-	-	3	19	22
Gross undrawn and contingent facilities subject to ECL	28,491	837	3	19	29,350
Allowance for ECL included in Other provisions (refer to Note 20)	(60)	(24)	(2)	(11)	(97)
Net undrawn and contingent facilities subject to ECL	28,431	813	1	8	29,253
Coverage ratio	0.21%	2.87%	66.67%	57.89%	0.33%
Net undrawn and contingent facilities					29,253

15. FINANCIAL RISK MANAGEMENT (continued)

2018 Credit risk disclosures

The below disclosures do not reflect the adoption of NZ IFRS 9 and have been prepared under the requirements of the previous NZ IAS 39.

The table below provides an analysis of the credit quality of the maximum exposure to credit risk split by:

- neither past due nor impaired financial assets by credit quality;
- past due but not impaired assets by ageing; and
- impaired assets presented as gross amounts and net of individually assessed provisions.

As at 30 September 2018	Loans and advances NZ$m	Other financial assets NZ$m	Off-balance sheet credit related commitments NZ$m	Total NZ$m
Neither past due nor impaired				
Strong credit profile	92,783	27,368	23,475	143,626
Satisfactory risk	29,335	521	6,186	36,042
Sub-standard but not past due or impaired	2,296	13	359	2,668
Subtotal	124,414	27,902	30,020	182,336
Past due but not impaired				
≥ 1 < 30 days	1,420	-	-	1,420
≥ 30 < 60 days	179	-	-	179
≥ 60 < 90 days	128	-	-	128
≥ 90 days	205	-	-	205
Subtotal	1,932	-	-	1,932
Impaired				
Impaired loans	321	-	-	321
Non-performing commitments and contingencies	-	-	14	14
Gross impaired financial assets	321	-	14	335
Individual provisions	(130)	-	-	(130)
Subtotal	191	-	14	205
Total	126,537	27,902	30,034	184,473

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CONCENTRATIONS OF CREDIT RISK

Credit risk becomes concentrated when a number of customers are engaged in similar activities, have similar economic characteristics, or have similar activities within the same geographic region – therefore, they may be similarly affected by changes in economic or other conditions. The Banking Group monitors its credit portfolio to manage risk concentration and rebalance the portfolio. The Banking Group also applies single customer counterparty limits to protect against unacceptably large exposures to one single customer.

Analysis of financial assets by industry sector is based on Australian and New Zealand Standard Industrial Classification (ANZSIC) codes. The significant categories shown are the level one New Zealand Standard Industry Output Categories (NZSIOC), except that Agriculture is shown separately as required by the Order.

Composition of financial instruments that give rise to credit risk by industry group are presented below:

	Loans and advances[3]		Other financial assets[4]		Off-balance sheet credit related commitments[5]		Total	
	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m
New Zealand residents								
Agriculture	17,855	17,844	84	82	1,021	1,373	18,960	19,299
Forestry and fishing, agriculture services	1,255	1,379	9	9	225	249	1,489	1,637
Manufacturing	2,682	2,687	378	284	2,004	1,793	5,064	4,764
Electricity, gas, water and waste services	1,414	1,403	514	330	1,834	1,576	3,762	3,309
Construction	1,832	1,713	32	21	1,039	1,358	2,903	3,092
Wholesale trade	1,488	1,404	94	63	1,681	1,521	3,263	2,988
Retail trade and accommodation	2,956	3,211	29	27	961	969	3,946	4,207
Transport, postal and warehousing	1,309	1,222	137	121	864	783	2,310	2,126
Finance and insurance services	816	872	6,203	5,509	1,627	1,567	8,646	7,948
Public administration and safety[1]	343	364	9,723	9,654	1,105	1,043	11,171	11,061
Rental, hiring & real estate services	33,340	31,805	1,212	235	3,112	3,461	37,664	35,501
Professional, scientific, technical, administrative and support services	1,126	1,165	11	9	631	633	1,768	1,807
Households	61,515	56,808	210	192	11,278	11,977	73,003	68,977
All other New Zealand residents[2]	2,537	2,569	242	167	1,847	1,663	4,626	4,399
Subtotal	130,468	124,446	18,878	16,703	29,229	29,966	178,575	171,115
Overseas								
Finance and insurance services	148	128	14,030	11,109	121	139	14,299	11,376
Households	1,553	1,512	5	5	-	-	1,558	1,517
All other non-NZ residents	783	818	32	85	-	-	815	903
Subtotal	2,484	2,458	14,067	11,199	121	139	16,672	13,796
Gross total	132,952	126,904	32,945	27,902	29,350	30,105	195,247	184,911
Allowance for ECL	(497)	(441)	-	-	(97)	(71)	(594)	(512)
Subtotal	132,455	126,463	32,945	27,902	29,253	30,034	194,653	184,399
Unearned income	(237)	(239)	-	-	-	-	(237)	(239)
Capitalised brokerage / mortgage origination fees	307	313	-	-	-	-	307	313
Maximum exposure to credit risk	132,525	126,537	32,945	27,902	29,253	30,034	194,723	184,473

1 Public administration and safety includes exposures to local government administration and central government administration, defence and public safety.
2 Other includes exposures to mining, information media and telecommunications, education and training, health care and social assistance and arts, recreation and other services.
3 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.
4 Including items reclassified as held for sale.
5 Off-balance sheet credit related commitments comprise undrawn facilities, customer contingent liabilities and letters of offer.

15. FINANCIAL RISK MANAGEMENT (continued)

COLLATERAL MANAGEMENT

We use collateral for on and off-balance sheet exposures to mitigate credit risk if a counterparty cannot meet its repayment obligations. Where there is sufficient collateral, an expected credit loss is not recognised. This is largely the case for certain lending products that are secured by corresponding investment for which margin loans are utilised and for reverse repurchase agreements. For some products, the collateral provided by customers is fundamental to the product's structuring, so it is not strictly the secondary source of repayment - for example, lending secured by trade receivables is typically repaid by the collection of those receivables. During the period there was no change in our collateral policies.

The nature of collateral or security held for the relevant classes of financial assets is as follows:

Net loans and advances	
Loans – housing and personal	Housing loans are secured by mortgage(s) over property and additional security may take the form of guarantees and deposits. Personal lending (including credit cards and overdrafts) is predominantly unsecured. If we take security, then it is restricted to eligible vehicles, motor homes and other assets.
Loans – business	Business loans may be secured, partially secured or unsecured. Typically, we take security by way of a mortgage over property and/or a charge over the business or other assets. If appropriate, we may take other security to mitigate the credit risk, for example: guarantees, standby letters of credit or derivative protection.
Other financial assets	
Trading securities, investment securities, derivatives and other financial assets	For trading securities, we do not seek collateral directly from the issuer or counterparty. However, the collateral may be implicit in the terms of the instrument (for example, with an asset-backed security). The terms of debt securities may include collateralisation. For derivatives, we typically terminate all contracts with the counterparty and settle on a net basis at market levels current at the time of a counterparty default under International Swaps and Derivatives Association (ISDA) Master Agreements. Our preferred practice is to use a Credit Support Annex (CSA) to the ISDA so that open derivative positions with the counterparty are aggregated and cash collateral (or other forms of eligible collateral) is exchanged daily. The collateral is provided by the counterparty when their position is out of the money (or provided to the counterparty by the Banking Group when our position is out of the money).
Off-balance sheet positions	
Undrawn and contingent liabilities	Collateral for off-balance sheet positions is mainly held against undrawn facilities, and they are typically performance bonds or guarantees. Undrawn facilities that are secured include housing loans secured by mortgages over residential property and business lending secured by commercial real estate and/or charges over business assets.

The table below shows the estimated value of collateral we hold and the net unsecured portion of credit exposures:

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m
Net loans and advances	**132,525**	126,537	**124,249**	117,337	**8,276**	9,200
Other financial assets[1]	**32,945**	27,902	**1,857**	2,029	**31,088**	25,873
Off-balance sheet positions	**29,253**	30,034	**14,152**	15,124	**15,101**	14,910
Total	**194,723**	184,473	**140,258**	134,490	**54,465**	49,983

1 Including items reclassified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Market risk stems from the Banking Group's trading and balance sheet management activities and the impact of changes and correlation between interest rates, foreign exchange rates, credit spreads and volatility in bond, commodity or equity prices.

The BRC delegates responsibility for day-to-day management of both market risk and compliance with market risk policies to the Bank's Asset & Liability Committee (ALCO).

Within overall strategies and policies established by the BRC, business units and risk management have joint responsibility for the control of market risk at the Banking Group level. The Market Risk team (a specialist risk management unit independent of the business) allocates market risk limits at various levels and monitors and reports on them daily. This detailed framework allocates individual limits to manage and control exposures using risk factors and profit and loss limits.

Management, measurement and reporting of market risk is undertaken in two broad categories:

Traded market risk	Non-traded market risk
Risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Principal risk categories monitored are: • Currency risk – potential loss arising from changes in foreign exchange rates or their implied volatilities. • Interest rate risk – potential loss from changes in market interest rates or their implied volatilities. • Credit spread risk – potential loss arising from a movement in margin or spread relative to a benchmark. • Commodity risk – potential loss arising from changes in commodity prices or their implied volatilities. • Equity risk – potential loss arising from changes in equity prices.	Risk of loss associated with the management of non-traded interest rate risk, liquidity risk and foreign exchange exposures. This includes interest rate risk in the banking book. This risk of loss arises from adverse changes in the overall and relative level of interest rates for different tenors, differences in the actual versus expected net interest margin, and the potential valuation risk associated with embedded options in financial instruments and bank products.

MEASUREMENT OF MARKET RISK

We primarily manage and control market risk using Value at Risk (VaR), sensitivity analysis and stress testing.

VaR gauges the Banking Group's possible daily loss based on historical market movements.

The Banking Group's VaR approach for both traded and non-traded risk is historical simulation. We use historical changes in market rates, prices and volatilities over:

- the previous 500 business days, to calculate standard VaR, and
- a 1-year stressed period, to calculate stressed VaR.

We calculate traded and non-traded VaR using a one-day holding period. For stressed VaR we use a ten-day period. Back testing is used to ensure our VaR models remain accurate.

The Banking Group measures VaR at a 99% confidence interval which means there is a 99% chance that a loss will not exceed the VaR for the relevant holding period.

15. FINANCIAL RISK MANAGEMENT (continued)

TRADED AND NON-TRADED MARKET RISK

Traded market risk

The table below shows the traded market risk VaR on a diversified basis by risk categories:

	2019				2018			
	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m
Traded value at risk 99% confidence								
Foreign exchange	0.5	1.0	0.2	0.5	0.5	1.6	0.2	0.7
Interest rate	1.4	2.5	0.6	1.2	1.4	3.6	0.8	1.9
Credit	0.6	0.7	0.3	0.4	0.5	0.8	0.3	0.5
Diversification benefit[1]	(0.7)	n/a	n/a	(0.8)	(1.0)	n/a	n/a	(0.9)
Total VaR	1.8	2.6	0.8	1.3	1.4	4.0	1.0	2.2

1. The diversification benefit reflects risks that offset across categories. The high and low VaR figures reported for each factor did not necessarily occur on the same day as the high and low VaR reported for the Banking Group as a whole. Consequently, a diversification benefit for high and low would not be meaningful and is therefore omitted from the table.

Non-traded market risk

Balance sheet risk management

The principal objectives of balance sheet risk management are to maintain acceptable levels of interest rate and liquidity risk to mitigate the negative impact of movements in interest rates on the earnings and market value of the Banking Group's banking book, while ensuring the Banking Group maintains sufficient liquidity to meet its obligations as they fall due.

Interest rate risk management

Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the Banking Group's future net interest income. This risk arises from two principal sources, namely mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets. Interest rate risk is reported using VaR and scenario analysis (based on the impact of a 1% rate shock). The table below shows VaR figures for non-traded interest rate risk for the Banking Group.

	2019				2018			
	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m
Non-traded value at risk 99% confidence								
Total VaR	10.0	10.0	7.4	8.4	8.0	10.2	6.4	7.8

We undertake scenario analysis to stress test the impact of extreme events on the Banking Group's market risk exposures. We model a 1% overnight parallel positive shift in the yield curve to determine the potential impact on our net interest income over the next 12 months. This is a standard risk measure which assumes the parallel shift is reflected in all wholesale and customer rates.

The table below shows the outcome of this risk measure for the current and previous financial years, expressed as a percentage of reported net interest income. A positive number signifies that a rate increase is positive for net interest income over the next 12 months.

	2019	2018
Impact of 1% rate shock		
As at period end	0.2%	-0.4%
Maximum exposure	1.0%	0.9%
Minimum exposure	-0.7%	-1.2%
Average exposure (in absolute terms)	0.3%	0.0%

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

Where it is considered appropriate, the Banking Group takes out economic hedges against larger foreign exchange denominated revenue streams (primarily Australian Dollar, US Dollar and US Dollar correlated). The primary objective of hedging is to ensure that, if practical, the consolidated capital ratios are neutral to the effect of changes in exchange rates. During the current and prior years, we had selective hedges in place. Further detail on the Banking Group's hedging relationships is disclosed in Note 9 Derivative Financial Instruments.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Liquidity risk is the risk that the Banking Group is either:

- unable to meet its payment obligations (including repaying depositors or maturing wholesale debt) when they fall due; or
- does not have the appropriate amount, tenor and composition of funding and liquidity to fund increases in its assets.

Management of liquidity and funding is overseen by ALCO. The Banking Group's liquidity and funding risks are governed by a set of principles approved by the Risk Committees of the Bank's and Ultimate Parent Bank's Boards and include:

- maintaining the ability to meet all payment obligations in the immediate term;
- ensuring that the Banking Group has the ability to meet 'survival horizons' under Banking Group specific and general market liquidity stress scenarios to meet cash flow obligations over the short to medium term;
- maintaining strength in the Banking Group's balance sheet structure to ensure long term resilience in the liquidity and funding risk profile;
- ensuring the liquidity management framework is compatible with local regulatory requirements;
- preparing daily liquidity reports and scenario analysis to quantify the Banking Group's positions;
- targeting a diversified funding base to avoid undue concentrations by investor type, maturity, market source and currency;
- holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations; and
- establishing a detailed contingency plan to cover different liquidity crisis events.

KEY AREAS OF MEASUREMENT FOR LIQUIDITY RISK

Supervision and regulation

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

Scenario modelling

A key component of the Banking Group's liquidity management framework is scenario modelling.

Potential severe liquidity crisis scenarios which model the behaviour of cash flows where there is a problem (real or perceived) may include, but are not limited to, operational issues, doubts about the solvency of the Banking Group, or adverse rating changes. Under these scenarios the Banking Group may have significant difficulty rolling over or replacing funding. The Banking Group's liquidity policy requires sufficient high quality liquid assets to be held to meet its liquidity needs for the following 30 calendar days under the modelled scenarios.

As of 30 September 2019 the Banking Group was in compliance with the above scenarios.

Structural balance sheet metrics

The Banking Group's liquidity management framework also encompasses structural balance sheet metrics such as the RBNZ core funding ratio. These metrics are designed to limit the amount of funding required to be rolled over within a 1 year timeframe and so interact with the liquidity scenarios to maintain the Banking Group's liquidity position.

Wholesale funding

The Banking Group's wholesale funding strategy is designed to deliver a sustainable portfolio of wholesale funds that balances cost efficiency with targeting diversification by markets, investors, currencies, maturities and funding structures. Short-term and long-term wholesale funding is managed and executed by Treasury operations.

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

Funding capacity and debt issuance planning

The Banking Group adopts a conservative approach to determine its funding capacity. Annually, a funding plan is approved by the Bank's Board. The plan is supplemented by regular updates and is linked to the Banking Group's three year strategic planning cycle.

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY PORTFOLIO MANAGEMENT

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

Total liquidity portfolio

	2019 NZ$m	2018 NZ$m
Cash and balances with central banks	1,734	2,026
Certificates of deposit	374	179
Central and local government bonds	7,922	7,528
Government treasury bills	55	794
Reserve Bank bills	-	50
Other bonds	7,256	5,493
Total liquidity portfolio	17,341	16,070

Assets held for managing liquidity risk include short term cash held with RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated New Zealand domestic corporates. These assets would be accepted as collateral by RBNZ in repurchase transactions. At 30 September 2019 the Banking Group would be eligible to enter into repurchase transactions with a value of NZ$15,607 million. The Banking Group also held unencumbered internal residential mortgage backed securities (RMBS) which would entitle the Banking Group to enter into repurchase transactions with a value of NZ$7,179 million at 30 September 2019.

Liquidity crisis contingency planning

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

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

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

FUNDING POSITION

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

Analysis of funding liabilities by industry is based on ANZSIC codes. The significant categories shown are the level one NZSIOC.

	Note	2019 NZ$m	2018 NZ$m
Funding composition			
Customer deposits	13	109,236	104,055
Wholesale funding			
Debt issuances		26,207	25,135
Certificates of deposit and commercial paper		3,945	3,396
Other borrowings		246	557
Total wholesale funding		30,398	29,088
Total funding		139,634	133,143
Customer deposits by industry - New Zealand residents			
Agriculture, forestry and fishing		3,727	3,763
Manufacturing		2,152	2,335
Construction		2,194	2,050
Wholesale trade		2,020	1,571
Retail trade and accommodation		1,543	1,484
Financial and insurance services		11,458	10,661
Rental, hiring and real estate services		3,210	2,878
Professional, scientific, technical, administrative and support services		5,467	5,126
Public administration and safety		1,479	1,572
Arts, recreation and other services		1,968	2,027
Households		59,131	56,640
All other New Zealand residents[1]		3,553	3,556
		97,902	93,663
Customer deposits by industry - overseas			
Households		10,118	9,876
All other non-NZ residents		1,216	516
		11,334	10,392
Total customer deposits		109,236	104,055
Wholesale funding (financial and insurance services industry)			
New Zealand		7,799	8,082
Overseas		22,599	21,006
Total wholesale funding		30,398	29,088
Total funding		139,634	133,143
Concentrations of funding by geography			
New Zealand		105,701	101,745
Australia		775	739
United States		13,844	13,671
Europe		11,139	9,618
Other countries		8,175	7,370
Total funding		139,634	133,143

1 Other includes mining; electricity, gas, water and waste services; transport, postal and warehousing; information media and telecommunications; education and training; health care and social assistance.

15. FINANCIAL RISK MANAGEMENT (continued)

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF THE BANKING GROUP'S FINANCIAL LIABILITIES

The table below provides residual contractual maturity analysis of financial liabilities at 30 September 2019 within relevant maturity groupings. All outstanding debt issuances are profiled on the earliest date on which the Banking Group may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reported on the balance sheet.

It should be noted that this is not how the Banking Group manages its liquidity risk.

2019	On demand NZ$m	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
Settlement balances payable	1,114	504	-	-	-	1,618
Collateral received	-	991	-	-	-	991
Deposits and other borrowings	54,183	27,187	29,476	4,065	-	114,911
Derivative financial liabilities (trading)	-	9,530	-	-	-	9,530
Debt issuances[1]	-	284	4,859	16,925	5,277	27,345
Other financial liabilities	-	148	28	106	108	390
Derivative financial instruments (balance sheet management)						
- gross inflows	-	842	2,067	8,426	714	12,049
- gross outflows	-	(974)	(2,444)	(9,084)	(723)	(13,225)
2018						
Settlement balances payable	1,338	837	-	-	-	2,175
Collateral received	-	845	-	-	-	845
Deposits and other borrowings	52,016	25,701	27,008	4,854	-	109,579
Derivative financial liabilities (trading)	-	6,147	-	-	-	6,147
Debt issuances[1]	-	930	3,676	17,810	4,596	27,012
Other financial liabilities[2]	-	119	7	44	76	246
Derivative financial instruments (balance sheet management)						
- gross inflows	-	1,790	2,033	9,080	1,266	14,169
- gross outflows	-	(1,998)	(2,218)	(9,368)	(1,179)	(14,763)

[1] Any callable wholesale debt instruments have been included at their next call date. Refer to Note 14 Debt Issuances for subordinated debt call dates.
[2] Including items reclassified as held for sale.

At 30 September 2019, NZ$59 million (2018: NZ$86 million) of the Banking Group's non-credit related commitments and NZ$29,350 million (2018: NZ$30,105 million) of its credit related commitments and contingent liabilities mature in less than 1 year, based on the earliest date on which the Banking Group may be required to pay.

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Banking Group carries a significant number of financial instruments on the balance sheet at fair value. The fair value is the best estimate of the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

VALUATION

The Banking Group has an established control framework, including appropriate segregation of duties, to ensure that fair values are accurately determined, reported and controlled. The framework includes the following features:

- products are approved for transacting with external customers and counterparties only where fair values can be appropriately determined;
- quoted market prices used to value financial instruments are independently verified with information from external pricing providers;
- fair value methodologies and inputs are evaluated and approved by a function independent of the party that undertakes the transaction;
- movements in fair values are independently monitored and explained by reference to underlying factors relevant to the fair value; and
- valuation adjustments (such as funding valuation adjustments, credit valuation adjustments and bid-offer adjustments) are independently validated and monitored.

If the Banking Group holds offsetting risk positions, then the Banking Group uses the portfolio exemption in NZ IFRS 13 *Fair Value Measurement* (NZ IFRS 13) to measure the fair value of such groups of financial assets and financial liabilities. We measure the portfolio based on the price that would be received to sell a net long position (an asset) for a particular risk exposure, or to transfer a net short position (a liability) for a particular risk exposure.

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

We use valuation techniques to estimate the fair value of assets and liabilities for recognition, measurement and disclosure purposes where no quoted price in an active market exists for that asset or liability. This includes the following:

Asset or liability	Fair value approach
Financial instruments classified as: - Trading securities - Derivative financial assets and financial liabilities - Investment securities	Valuation techniques are used that incorporate observable market inputs for financial instruments with similar credit risk, maturity and yield characteristics.
Financial instruments classified as: - Net loans and advances - Deposits and other borrowings - Debt issuances	Discounted cash flow techniques are used whereby contractual future cash flows of the instrument are discounted using wholesale market interest rates, or market borrowing rates for debt with similar maturities or with a yield curve appropriate for the remaining term to maturity.

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following tables set out the classification of financial asset and liability categories according to measurement bases together with the carrying amounts as reported on the balance sheet.

		2019			2018		
	Note	At amortised cost NZ$m	At fair value NZ$m	Total NZ$m	At amortised cost NZ$m	At fair value NZ$m	Total NZ$m
Financial assets							
Cash and cash equivalents		2,363	-	2,363	2,200	-	2,200
Settlement balances receivable		193	-	193	656	-	656
Collateral paid		2,324	-	2,324	1,919	-	1,919
Trading securities	8	-	8,942	8,942	-	8,024	8,024
Derivative financial instruments	9	-	11,666	11,666	-	8,086	8,086
Investment securities	10	-	7,027	7,027	-	6,502	6,502
Net loans and advances		132,525	-	132,525	126,466	-	126,466
Other financial assets[1]		622	-	622	592	127	719
Total		138,027	27,635	165,662	131,833	22,739	154,572
Financial liabilities							
Settlement balances payable		1,607	-	1,607	2,161	-	2,161
Collateral received		991	-	991	845	-	845
Deposits and other borrowings	13	110,966	2,461	113,427	105,522	2,486	108,008
Derivative financial instruments	9	-	11,042	11,042	-	8,095	8,095
Debt issuances		26,207	-	26,207	25,135	-	25,135
Other financial liabilities[1]		628	213	841	576	110	686
Total		140,399	13,716	154,115	134,239	10,691	144,930

1 Including items reclassified as held for sale.

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FAIR VALUE HIERARCHY

The Banking Group categorises assets and liabilities carried at fair value into a fair value hierarchy as required by NZ IFRS 13 based on the observability of inputs used to measure the fair value:

- Level 1 – valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuations using inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly; and
- Level 3 – valuations where significant unobservable are used to measure the fair value of the asset or liability.

The following table presents assets and liabilities carried at fair value in accordance with the fair value hierarchy:

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m
Assets								
Trading securities	8,319	6,795	623	1,229	-	-	8,942	8,024
Derivative financial instruments	10	7	11,653	8,076	3	3	11,666	8,086
Investment securities	7,026	6,457	-	44	1	1	7,027	6,502
Investments backing insurance contract liabilities[1]	-	-	-	127	-	-	-	127
Total	15,355	13,259	12,276	9,476	4	4	27,635	22,739
Liabilities								
Deposits and other borrowings	-	-	2,461	2,486	-	-	2,461	2,486
Derivative financial instruments	11	10	11,031	8,084	-	1	11,042	8,095
Other financial liabilities	213	110	-	-	-	-	213	110
Total	224	120	13,492	10,570	-	1	13,716	10,691

[1] Including items reclassified as held for sale.

Fair value designation

We designate commercial paper (included in deposits and other borrowings) as fair value through profit or loss where they are managed on a fair value basis to align the measurement with how the instruments are managed.

NOTES TO THE FINANCIAL STATEMENTS

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

The following table sets out the Banking Group's basis of estimating fair values of the financial instruments carried at amortised cost:

Financial asset and liability	Fair value approach
Net loans and advances to banks	Discounted cash flows using prevailing market rates for loans with similar credit quality.
Net loans and advances to customers	Present value of future cash flows, discounted using a curve that incorporates changes in wholesale market rates, the Banking Group's cost of wholesale funding and the customer margin, as appropriate.
Deposit liability without a specified maturity or at call	The amount payable on demand at the reporting date. We do not adjust the fair value for any value we expect the Banking Group to derive from retaining the deposit for a future period.
Interest bearing fixed maturity deposits and other borrowings and acceptances with quoted market rates	Market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows to derive the fair value.
Debt issuances	Calculated based on quoted market prices or observable inputs as applicable. If quoted market prices are not available, we use a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument. The fair value reflects adjustments to credit spreads applicable to the Banking Group for that instrument.

The financial assets and financial liabilities listed in the table below are carried at amortised cost on the Banking Group's balance sheet. While this is the value at which we expect the assets will be realised and the liabilities settled, the Banking Group provides an estimate of the fair value of the financial assets and financial liabilities at balance date in the table below.

	Carrying amount		Categorised into fair value hierarchy						Fair value (total)	
			Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)			
	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m
Financial assets										
Net loans and advances	132,525	126,466	-	-	167	131	132,920	126,614	133,087	126,745
Total	132,525	126,466	-	-	167	131	132,920	126,614	133,087	126,745
Financial liabilities										
Deposits and other borrowings	110,966	105,522	-	-	111,098	105,592	-	-	111,098	105,592
Debt issuances	26,207	25,135	2,848	2,533	23,737	22,929	-	-	26,585	25,462
Total	137,173	130,657	2,848	2,533	134,835	128,521	-	-	137,683	131,054

KEY JUDGEMENTS AND ESTIMATES

The Banking Group evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and financial liabilities at the balance sheet date.

The majority of valuation models the Banking Group uses employ only observable market data as inputs. However, for certain financial instruments, we may use data that is not readily observable in current markets. If we use unobservable market data, then we need to exercise more judgement to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, we derive unobservable inputs from other relevant market data and compare them to observed transaction prices where available.

When establishing the fair value of a financial instrument using a valuation technique, the Banking Group considers valuation adjustments in determining the fair value. We may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments – refer Note 9 Derivative Financial Instruments) to the techniques used to reflect the Banking Group's assessment of factors that market participants would consider in setting fair value.

17. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The following disclosure excludes the amounts presented as collateral paid and received in the balance sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of those collateral agreements are included in the standard CSA that forms part of the ISDA Master Agreement.

ASSETS CHARGED AS SECURITY FOR LIABILITIES

Assets charged as security for liabilities include the following types of instruments:

- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements.
- UDC secured investments are secured by a security interest granted under a trust deed over all of UDC's present and future assets and undertakings, to Trustees Executors Limited, as supervisor. The assets subject to the security interest comprise mainly loans to UDC's customers and certain plant and equipment. The security interest secures all amounts payable by UDC on the UDC secured investments and all other monies payable by UDC under the trust deed. UDC announced on 29 July 2019 that it had decided to exercise its right to redeem all UDC secured investments, and all UDC secured investments were repaid or transferred to deposits in the Bank on 14 October 2019.
- Specified residential mortgages provided as security for notes and bonds issued to investors as part of the Banking Group's covered bond programmes.

The carrying amounts of assets pledged as security are as follows:

	2019 NZ$m	2018 NZ$m
Securities sold under agreements to repurchase[1]	203	517
Assets pledged as collateral for UDC secured investments	3,484	3,296
Residential mortgages pledged as security for covered bonds	11,600	10,747

[1] The amounts disclosed as securities sold under arrangements to repurchase include both:
- assets pledged as security which continue to be recognised on the Banking Group's balance sheet; and
- assets repledged, which are included in the disclosure below.

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The Banking Group has received collateral associated with various financial instruments. Under certain transactions the Banking Group has the right to sell, or to repledge, the collateral received. These transactions are governed by standard industry agreements.

The fair value of collateral we have received and that we have sold or repledged is as follows:

	2019 NZ$m	2018 NZ$m
Fair value of assets which can be sold or repledged	300	139
Fair value of assets sold or repledged	81	34

NOTES TO THE FINANCIAL STATEMENTS

18. OFFSETTING

We offset financial assets and financial liabilities in the balance sheet (in accordance with NZ IAS 32 *Financial Instruments: Presentation*) when there is:

- a current legally enforceable right to set off the recognised amounts in all circumstances; and
- an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

If the above conditions are not met, the financial assets and financial liabilities are presented on a gross basis.

The Banking Group does not have any arrangements that satisfy the conditions necessary to offset financial assets and financial liabilities within the balance sheet. The following table identifies financial assets and financial liabilities which have not been offset but are subject to enforceable master netting agreements (or similar arrangements) and the related amounts not offset in the balance sheet. We have not taken into account the effect of over collateralisation.

			Amount subject to master netting agreement or similar			
2019	Total amounts recognised in the balance sheet NZ$m	Amounts not subject to master netting agreement or similar NZ$m	Total NZ$m	Financial instruments NZ$m	Financial collateral (received)/ pledged NZ$m	Net amount NZ$m
Derivative financial instruments	11,666	(3,061)	8,605	(6,468)	(541)	1,596
Reverse repurchase agreements [1]	297	-	297	-	(297)	-
Total financial assets	11,963	(3,061)	8,902	(6,468)	(838)	1,596
Derivative financial instruments	(11,042)	2,340	(8,702)	6,468	858	(1,376)
Repurchase agreements [2]	(203)	-	(203)	-	203	-
Total financial liabilities	(11,245)	2,340	(8,905)	6,468	1,061	(1,376)
2018						
Derivative financial instruments	8,086	(1,029)	7,057	(5,711)	(481)	865
Reverse repurchase agreements [1]	136	-	136	-	(136)	-
Total financial assets	8,222	(1,029)	7,193	(5,711)	(617)	865
Derivative financial instruments	(8,095)	694	(7,401)	5,711	563	(1,127)
Repurchase agreements [2]	(517)	-	(517)	-	517	-
Total financial liabilities	(8,612)	694	(7,918)	5,711	1,080	(1,127)

1 Reverse repurchase agreements are presented in the balance sheet within cash and cash equivalents.
2 Repurchase agreements are presented in the balance sheet within deposits and other borrowings.

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	Note	2019 NZ$m	2018 NZ$m
Goodwill		3,160	3,230
Software		40	53
Other intangibles:			
Management rights (indefinite life)		76	76
Acquired portfolios of insurance business		-	31
Goodwill and other intangible assets (including assets reclassified as held for sale)		3,276	3,390
Less: Goodwill and other intangible assets reclassified as held for sale	26	-	(101)
Goodwill and other intangible assets		3,276	3,289

GOODWILL ALLOCATED TO CASH-GENERATING UNITS (CGUs)

An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purposes of impairment testing, goodwill is allocated at the date of acquisition to a CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount.

To estimate the recoverable amount of the CGU to which each goodwill component is allocated, we use a value-in-use approach.

VALUE-IN-USE

These calculations use cash flow projections based on a number of financial budgets within each segment approved by management covering a three year period. Cash flow projections are based on a range of readily available economic assumptions including GDP and the Consumer Price Index. Cash flows beyond the three year period are extrapolated using a 2% growth rate.

These cash flow projections are discounted using a capital asset pricing model. As at 28 February 2019 when the last valuation was prepared, a discount rate of 11.1% was applied to each cash generating unit. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on a blended yield rate between the 10 year New Zealand government bond rate and the associated 5 year forward rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each segment.

Management believes any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of goodwill for any CGU to exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

RECOGNITION AND MEASUREMENT

The table below details how we recognise and measure different intangible assets:

Intangible	Goodwill	Software	Other Intangible Assets
Definition	Excess amount the Banking Group has paid in acquiring a business over the fair value less costs of disposal of the identifiable assets and liabilities acquired.	Purchases of "off the shelf" software assets are capitalised as assets. Internal and external costs incurred in building software and computer systems costing greater than NZ$20 million are capitalised as assets. Those less than NZ$20 million are expensed in the year in which the costs are incurred.	Acquired portfolios of insurance business and management fee rights.
Carrying value	Cost less any accumulated impairment losses. Allocated to the cash generating unit to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised.	Initially, measured at fair value at acquisition. Subsequently, carried at fair value less accumulated amortisation and impairment losses.
Useful life	Indefinite. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment.	Except for major core infrastructure, amortised over periods between 3-5 years. Major core infrastructure amortised over periods between 7-10 years.	Acquired portfolios of insurance business are amortised over 20 years. Management fee rights have an indefinite life and are reviewed for impairment at least annually or when there is an indication of impairment.
Amortisation method	Not applicable.	Straight-line method.	Actuarial methods consistent with the calculation of life insurance contract assets.

KEY JUDGEMENTS AND ESTIMATES

Management judgement is used to assess the recoverable value of goodwill, and other intangible assets, and the useful economic life of an asset, or if an asset has an indefinite life. We reassess the recoverability of the carrying value at each reporting date.

The carrying amount of goodwill is based on judgements including the basis of assumptions and forecasts used for determining earnings for CGUs, headroom availability, and sensitivities of the forecasts to reasonably possible changes in assumptions. Goodwill is assessed for indicators of impairment quarterly and tested for impairment annually. The level at which goodwill is allocated, the estimation of future cash flows and the selection of discount rates or earnings multiples applied requires significant judgement.

At each balance date, software and other intangible assets are assessed for indicators of impairment. In addition, software and intangible assets not ready for use are tested annually for impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the carrying value of the asset is written down immediately.

In addition, the expected useful life of intangible assets, including software assets, are assessed on an annual basis. The assessment requires management judgement, and in relation to our software assets, a number of factors can influence the expected economic useful lives. These factors include changes to business strategy, significant divestments and the underlying pace of technological change.

20. OTHER PROVISIONS

	Note	2019 NZ$m	2018 NZ$m
ECL allowance on undrawn facilities	12	97	-
Customer remediation		139	34
Restructuring costs		25	6
Leasehold make good		23	12
Other		30	24
Total other provisions		314	76

Movements in other provisions

	Customer remediation NZ$m	Restructuring costs NZ$m	Leasehold make good NZ$m	Other NZ$m
Balance at start of year	34	6	12	24
New and increased provisions made during the year	115	52	15	13
Provisions used during the year	(10)	(26)	(4)	(2)
Unused amounts reversed during the year	-	(7)	-	(5)
Balance at end of year	139	25	23	30

Customer remediation
Customer remediation includes provisions for expected refunds to customers and other counterparties, remediation project costs and related customer, counterparty and regulatory claims, penalties and litigation outcomes.

Restructuring costs
Provisions for restructuring costs arise from activities related to material changes in the scope of business undertaken by the Banking Group, including the OnePath separation, or the manner in which that business is undertaken and include employee termination benefits. Costs relating to on-going activities are not provided for and are expensed as incurred.

Leasehold make good
Provisions associated with leased premises where, at the end of a lease, the Banking Group is required to remove any fixtures and fittings installed in the leased property. This obligation arises immediately upon installation. Estimated make good costs are added to the leasehold improvement asset (within premises and equipment) upon installation and amortised over the lease term.

Other
Other provisions comprise various other provisions including losses arising from other legal action, operational issues, and warranties and indemnities provided in connection with various disposals of businesses and assets.

NOTES TO THE FINANCIAL STATEMENTS

20. OTHER PROVISIONS (continued)

RECOGNITION AND MEASUREMENT

The Banking Group recognises provisions where there is a present obligation arising from a past event, an outflow of economic resources is probable, and the amount of the provision can be measured reliably.

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

KEY JUDGEMENTS AND ESTIMATES

The Banking Group holds provisions for various obligations including customer remediation, restructuring costs, leasehold make good and litigation related claims. These provisions involve judgements regarding the outcome of future events, including estimates of expenditure required to satisfy such obligations. Where relevant, expert legal advice has been obtained and, in light of such advice, provisions and/or disclosures as deemed appropriate have been made.

In relation to customer remediation, determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including, the number of impacted customers, the average refund per customer and the associated remediation costs. Consequently, the appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence and adjustments are made to the provisions where appropriate.

21. SHAREHOLDERS' EQUITY

	Number of issued shares		NZ$ millions	
	2019	2018	2019	2018
Ordinary shares				
Ordinary shares at start of year	6,345,755,498	3,345,755,498	11,588	8,588
Ordinary shares issued during the year	-	3,000,000,000	-	3,000
Ordinary shares at end of year[1]	6,345,755,498	6,345,755,498	11,588	11,588
Preference shares	300,000,000	300,000,000	300	300
Total share capital	6,645,755,498	6,645,755,498	11,888	11,888

[1] Includes 650,712 (2018: 650,712) uncalled shares.

Preference shares

The key terms of the preference shares are as follows:

Dividends

Dividends are payable at the discretion of the Directors of the Bank and are non-cumulative. The Bank must not resolve to pay any dividend or make any other distribution on its ordinary shares until the next preference dividend payment date if the dividend on the preference shares is not paid.

Should the Bank elect to pay a dividend, the dividend is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 325 basis point margin, multiplied by one minus the New Zealand company tax rate, with dividend payments due on 1 March and 1 September each year.

Redemption features

The preference shares are redeemable, subject to prior written approval of RBNZ, by the Bank providing notice in writing to holders of the preference shares:

- on any date on or after a change to laws or regulations that adversely affects the regulatory capital or tax treatment of the preference shares; or
- on any dividend payment date; or
- on any date if the Bank has ceased to be a wholly owned subsidiary of the Ultimate Parent Bank.

The preference shares may be redeemed for nil consideration should a non-viability trigger event occur.

The preference shares qualify as AT1 capital for RBNZ's capital adequacy purposes.

RECOGNITION AND MEASUREMENT

Ordinary shares	Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Bank, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to: • on a show of hands, one vote; and • on a poll, one vote, for each share held.
Preference shares	All preference shares were issued by the Bank to the Immediate Parent and do not carry any voting rights. The preference shares are wholly classified as equity instruments as there is no contractual obligation for the Bank to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavourable basis. In the event of liquidation, holders of preference shares are entitled to available subscribed capital per share, pari passu with all holders of existing preference shares and ANZ capital notes but in priority to all holders of ordinary shares. They have no entitlement to participate in further distribution of profits or assets.
Reserves:	
Cash flow hedge reserve	Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments, net of deferred taxes to be realised when the underlying impacts profit and loss.
Investment securities revaluation reserve	Includes the changes in fair value and exchange differences on our revaluation of investment securities financial assets, net of deferred taxes to be realised upon disposal of the asset.

NOTES TO THE FINANCIAL STATEMENTS

22. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

The Banking Group's core capital objectives are to:
- protect the interests of depositors, creditors and shareholders;
- ensure the safety and soundness of the Banking Group's capital position; and
- ensure that the capital base supports the Banking Group's risk appetite, and strategic business objectives, in an efficient and effective manner.

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

The Banking Group has minimum and trigger levels for common equity tier 1, tier 1 and total capital that ensure sufficient capital is maintained to:
- meet minimum prudential requirements imposed by regulators;
- ensure consistency with the Banking Group's overall risk profile and financial positions, taking into account its strategic focus and business plan; and
- support the internal risk capital requirements of the business.

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

In April 2019, the Bank informed RBNZ that in the course of a self-review, the Bank discovered that it had not been using an approved model for the calculation of the operational risk capital requirement since December 2014. RBNZ has required the Banking Group to use the standardised approach to the calculation of its operational risk capital requirement from 31 March 2019.

Throughout the year, the Banking Group maintained compliance with RBNZ's minimum capital ratios.

REGULATORY ENVIRONMENT

As the Bank is a registered bank in New Zealand, it is primarily regulated by RBNZ under the Reserve Bank of New Zealand Act 1989. The Bank must comply with the minimum regulatory capital requirements, capital ratios and specific reporting levels that RBNZ sets. RBNZ requirements are summarised below:

	Regulatory capital definition	Minimum capital ratios
Common Equity Tier 1 (CET1) capital	Comprises ordinary share capital, retained earnings, and certain accounting reserves. Some amounts (e.g. the value of goodwill) must be deducted to determine the final value of CET1 capital.	CET1 capital divided by total risk weighted assets must be at least 4.5%.
Tier 1 capital	CET1 capital plus additional tier 1 instruments, which comprise high-quality capital and must: • provide a permanent and unrestricted commitment of funds; • be freely available to absorb losses; and provide for fully discretionary capital distributions.	Tier 1 capital divided by total risk weighted assets must be at least 6.0%.
Tier 2 capital	Tier 2 instruments include some subordinated instruments and accounting reserves that are not included in Tier 1 capital. Some amounts are deducted in determining the value of Tier 2 instruments.	No minimum.
Total capital	Tier 1 plus Tier 2 capital.	Total capital divided by total risk weighted assets must be at least 8.0%.
Capital buffer	The Capital buffer is actual CET1 capital in excess of any of the minimum capital requirements imposed on the Bank.	Capital buffer divided by total risk weighted assets should be at least 2.5%.

	Reporting levels
Solo consolidated	The registered bank plus subsidiaries which are funded exclusively and wholly owned by the registered bank.
Banking Group	The registered bank's consolidated group.

The Bank measures capital adequacy and reports to RBNZ on a Banking Group basis monthly, and measures capital adequacy on a Solo consolidated basis quarterly. Banking Group and Solo consolidated capital ratios are reported publicly in six-monthly disclosure statements.

22. CAPITAL MANAGEMENT (continued)

CAPITAL ADEQUACY

The following table provides details of the Banking Group's capital ratios at 30 September:

Unaudited	2019 NZ$m	2018 NZ$m
Qualifying capital		
Tier 1		
Shareholder's equity	14,430	13,109
Preference shares included in Additional Tier 1 capital	(300)	(300)
Gross Common Equity Tier 1 capital	14,130	12,809
Deductions	(3,684)	(3,728)
Common Equity Tier 1 capital	10,446	9,081
Additional tier 1 capital	2,780	2,776
Tier 1 capital	13,226	11,857
Tier 2 capital	-	-
Total capital	13,226	11,857
Capital adequacy ratios		
Common Equity Tier 1	10.8%	11.1%
Tier 1	13.6%	14.4%
Total	13.6%	14.4%
Buffer ratio	5.6%	6.4%
Risk weighted assets	97,070	82,147

23. CONTROLLED ENTITIES

The following table lists the principal subsidiaries of the Bank. Principal subsidiaries are those that have transactions or balances with parties outside the Banking Group. All subsidiaries are 100% owned and incorporated in New Zealand.

ANZ Bank New Zealand Limited	Nature of business Registered bank
Principal subsidiaries	
ANZ Investment Services (New Zealand) Limited	Funds management
ANZ New Zealand (Int'l) Limited	Finance
ANZ New Zealand Investments Limited	Funds management
ANZ New Zealand Securities Limited	Non-operating (previously on-line share broker)
ANZNZ Covered Bond Trust[1]	Securitisation entity
Arawata Assets Limited	Property
Karapiro Investments Limited	Asset finance
Kingfisher NZ Trust 2008-1[1]	Securitisation entity
UDC Finance Limited	Asset finance

1 The Banking Group does not own ANZNZ Covered Bond Trust and Kingfisher NZ Trust 2008-1. Control exists as the Banking Group retains substantially all the risks and rewards of the operations. Details of the Banking Group's interest in consolidated structured entities is included in Note 24 Structured Entities.

Changes in controlled entities

OnePath was sold to Cigna Corporation on 30 November 2018 (see Note 26 Divestments).

RECOGNITION AND MEASUREMENT

The Banking Group subsidiaries are those entities it controls through:

- being exposed to, or having rights to, variable returns from the entity; and
- being able to affect those returns through its power over the entity.

The Banking Group assesses whether it has power over those entities by examining the Banking Group's existing rights to direct the relevant activities of the entity.

24. STRUCTURED ENTITIES

A Structured Entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities (being those that significantly affect the entity's returns) are directed by means of contractual arrangement. A SE often has some or all of the following features or attributes:

- restricted activities;
- a narrow and well defined objective;
- insufficient equity to permit the SE to finance its activities without subordinated financial support; and
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

SEs are classified as subsidiaries and consolidated when control exists. If the Banking Group does not control a SE, then it is not consolidated. This note provides information on both consolidated and unconsolidated SEs.

The Banking Group's involvement with SEs is as follows:

Type	Details
Securitisation	The Banking Group uses the Kingfisher NZ Trust 2008-1 (the Kingfisher Trust) to securitise residential mortgages that it has originated, in order to diversify sources of funding for liquidity management. The Kingfisher Trust is an internal securitisation (bankruptcy remote) vehicle we created for the purpose of structuring assets that are eligible for repurchase under agreements with RBNZ (these are known as 'Repo eligible'). The Banking Group is exposed to variable returns from its involvement with the Kingfisher Trust and has the ability to affect those returns through its power over the Kingfisher Trust's activities. The Kingfisher Trust is therefore consolidated. As at 30 September 2019 and 30 September 2018 the Banking Group had not entered into any repurchase agreements with RBNZ for residential mortgage backed securities issued and therefore no collateral had been accepted by RBNZ under this facility. Additionally, the Banking Group may acquire interests in securitisation vehicles set up by third parties through providing lending facilities to, or holding securities issued by, such entities.
ANZNZ Covered Bond Trust (the Covered Bond Trust)	Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied. The Banking Group is exposed to variable returns from its involvement with the Covered Bond Trust and has the ability to affect those returns through its power over the Covered Bond Trust's activities. The Covered Bond Trust is therefore consolidated.
Structured finance arrangements	The Banking Group is involved with SEs established: • in connection with structured lending transactions to facilitate debt syndication and/or to ring-fence collateral; and • to own assets that are leased to customers in structured leasing transactions. The Banking Group may provide risk management products (derivatives) to the SE. In all instances, the Banking Group does not control these SEs. Further, the Banking Group's involvement does not establish more than a passive interest in decisions about the relevant activities of the SE, and accordingly we do not consider that interest disclosable.
Funds management activities	The Banking Group is the scheme manager for a number of Managed Investment Schemes (MIS). These MIS include the ANZ and OneAnswer branded KiwiSaver, retail and wholesale schemes and the Bonus Bonds Scheme. These MIS are financed through the issue of units to investors and the Banking Group considers them to be SEs. The Banking Group's interests in these MIS is limited to receiving fees for services or providing risk management products (derivatives). These interests do not create significant exposures to the MIS that would allow the Banking Group to control the funds. Therefore, these MIS are not consolidated.

24. STRUCTURED ENTITIES (continued)

CONSOLIDATED STRUCTURED ENTITIES

Financial or other support provided to Consolidated Structured Entities

The Bank provides lending facilities, derivatives and commitments to the Kingfisher Trust and the Covered Bond Trust and/or holds debt instruments that they have issued. The Bank did not provide any non-contractual support to consolidated SEs during the year (2018: nil).

UNCONSOLIDATED STRUCTURED ENTITIES

The Banking Group's interest in Unconsolidated Structured Entities

An 'interest' in an unconsolidated SE is any form of contractual or non-contractual involvement with an SE that exposes the Banking Group to variability of returns from the performance of that SE. These interests include, but are not limited to: holdings of debt or equity securities; derivatives that pass on risks specific to the performance of the SE; lending; loan commitments; financial guarantees; and fees from funds management activities.

For the purpose of disclosing interests in unconsolidated SEs:

- no disclosure is made if the Banking Group's involvement is not more than a passive interest - for example: when the Banking Group's involvement constitutes a typical customer-supplier relationship. On this basis, exposures to unconsolidated SEs that arise from lending, trading and investing activities are not considered disclosable interests - unless the design of the structured entity allows the Banking Group to participate in decisions about the relevant activities (being those that significantly affect the entity's returns).
- 'interests' do not include derivatives intended to expose the Banking Group to market risk (rather than performance risk specific to the SE) or derivatives through which the Banking Group creates, rather than absorbs, variability of the unconsolidated SE (such as purchase of credit protection under a credit default swap).

The Banking Group earned funds management fees from its MIS of NZ$198 million (2018: NZ$191 million) during the year. Size of these MIS is indicated by Funds Under Management which varies by fund, with a maximum value of approximately NZ$3.3 billion (2018: NZ$3.3 billion).

The Banking Group did not provide any non-contractual support to unconsolidated SEs during the year (2018: nil): nor does it have any current intention to provide financial or other support to unconsolidated SEs.

SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES

The Banking Group may also sponsor unconsolidated SEs in which it has no disclosable interest.

For the purposes of this disclosure, the Banking Group considers itself the 'sponsor' of an unconsolidated SE if it is the primary party involved in the design and establishment of that SE and:

- the Banking Group is the major user of that SE; or
- the Banking Group's name appears in the name of that SE, or on its products; or
- the Banking Group provides implicit or explicit guarantees of that SE's performance.

The Bank has sponsored the ANZ PIE Fund, which invests only in deposits with the Bank. The Banking Group does not provide any implicit or explicit guarantees of the capital value or performance of investments in the ANZ PIE Fund. There was no income received from, nor assets transferred to, this entity during the year.

KEY JUDGEMENTS AND ESTIMATES

Significant judgement is required in assessing whether control exists over Structured Entities involved in securitisation activities, structured finance transactions and investment funds. Judgement is required in relation to the existence of:

- power over the relevant activities (being those that significantly affect the entity's returns); and
- exposure to variable returns of that entity.

NOTES TO THE FINANCIAL STATEMENTS

25. TRANSFERS OF FINANCIAL ASSETS

In the normal course of business the Banking Group enters into transactions where it transfers financial assets directly to third parties. These transfers may give rise to the Banking Group fully, or partially, derecognising those financial assets - depending on the Banking Group's exposure to the risks and rewards or control over the transferred assets. If the Banking Group retains substantially all of the risk and rewards of a transferred asset, the transfer does not qualify for derecognition and the asset remains on the Banking Group's balance sheet in its entirety.

Covered bonds

The Banking Group operates a covered bond programme to raise funding. Refer to Note 24 Structured Entities for further details. The covered bonds issued externally are included within debt issuances.

Repurchase agreements

When the Banking Group sells securities subject to repurchase agreements under which we retain substantially all the risks and rewards of ownership, then those assets do not qualify for derecognition. An associated liability is recognised for the consideration received from the counterparty.

The table below sets out the balance of assets transferred that do not qualify for derecognition, along with the associated liabilities:

	Covered bonds		Repurchase agreements	
	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m
Current carrying amount of assets transferred	11,600	10,747	203	517
Carrying amount of associated liabilities	4,460	3,929	203	517

26. DIVESTMENTS

OnePath and Paymark

On 30 November 2018, the Banking Group sold OnePath to Cigna Corporation and on 11 January 2019, the Banking Group sold its 25% shareholding in Paymark to Ingenico Group. The Banking Group recognised net gains on sale of NZ$66 million and NZ$39 million respectively, which are included in other operating income.

Assets and liabilities sold

	NZ$m
Investments backing insurance contract liabilities	101
Other assets, net of amounts payable to the Bank	6
Life insurance contract assets	675
Investments in associates - Paymark	7
Goodwill and other intangible assets	101
Total assets	890
Deposits and other borrowings (deposits with the Bank)	(50)
Current tax liabilities	18
Deferred tax liabilities	178
Payables and other liabilities	146
Provisions	2
Total liabilities	294
Net assets sold	596

27. RELATED PARTY DISCLOSURES

Key management personnel and their related parties

Key management personnel (KMP) are defined as directors and those executives having authority and responsibility for planning, directing and controlling the activities of the Banking Group. Executive roles included in KMP are the Bank's Chief Executive Officer (CEO), all executives reporting directly to the Bank's CEO, and the CEO – NZ Branch.

Key management personnel compensation[1]	2019 NZ$000	2018 NZ$000
Salaries and short-term employee benefits[2]	10,827	11,738
Post-employment benefits[3]	297	219
Other long-term benefits[4]	39	38
Termination benefits[5]	2,233	452
Share-based payments	2,242	3,308
Total	15,638	15,755

1 Includes former disclosed KMPs until the end of their employment.
2 Includes restatement of prior year amount to include items previously characterised as business related expenses that would more appropriately be characterised as non-business related. Similar items existed in the prior periods between 2010-2017 which would have increased the short-term benefits by less than NZ$0.1m per annum. Prior year amount has also been restated to include fringe benefit tax paid on short-term benefits, additional fees paid to a director, and the reclassification of annual and long service leave paid on termination to termination benefits.
3 Includes restatement of prior year amount to reclassify retirement allowances paid on termination to termination benefits.
4 Comprises long service leave accrued during the year.
5 Includes payments for accrued annual leave, long service leave and pay in lieu of notice in accordance with contract, payable on cessation. Comparative amounts have been updated to include payments of accrued annual and long service leave on termination previously included in salaries and short-term benefits, and payments of retirement allowances on termination previously included in post-employment benefits.

Transactions and balances with key management personnel and their related parties[1]	2019 NZ$m	2018 NZ$m
Secured loans and advances	23	19
Credit related commitments (undrawn loan facilities)	5	4
Interest income	1	1
Customer deposits	14	18
Payables and other liabilities (share-based payments liability)	2	3

1 Includes KMP, close family members of KMP and entities that are controlled or jointly controlled by KMP or their close family members, of the Banking Group and its parent companies. Comparative amounts have been updated for consistency with current period presentation.

Loans made to KMP and their related parties are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate. No amounts have been written off or forgiven, or individually assessed allowances for expected credit losses raised in respect of these balances (2018: nil).

All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services. In addition to the amounts above:

- Aggregate amounts for each of unsecured loans and advances, interest expense, fee income, insurance premium income, debt issuances and collectively assessed credit impairment charge and allowance for expected credit losses were less than NZ$1 million for both years presented.
- KMP and their related parties also hold units in MIS managed by the Banking Group. These holdings include NZ$0.2 million (2018: nil) of units in the ANZ PIE Fund, which are invested solely in deposits of the Bank. Other transactions and balances in respect of these, and other, MIS holdings are not disclosed because those MIS are unconsolidated structured entities and not included in the financial statements of the Banking Group.
- A close family member of an executive reporting to the CEO is an employee of the Banking Group and received total compensation of NZ$0.1 million (2018: NZ$0.1 million).
- Some KMP pay the Banking Group for the use of carparks in premises owned or leased by the Banking Group. These amounts were less than NZ$0.1 million (2018: less than NZ$0.1 million)

In November 2010, a subsidiary of the Bank, Arawata Assets Limited, purchased a residential property for NZ$7.55 million. The property was leased to the then CEO of the Bank, Mr David Hisco, as part of a relocation package arrangement.

On 31 March 2017, the property was sold to Mr Hisco's wife for NZ$6.9 million. At that time, Mr Hisco was the CEO of the Bank and a member of KMP.

The Bank obtained two independent valuations of the property, one of which was not considered for a number of reasons, including that it did not comply with valuation standards. The Bank then obtained a further independent valuation and the sale price was determined as the midpoint of two independent valuations, less an amount reflecting part of the estimated sale costs that would have otherwise been incurred.

This transaction was not separately disclosed in the Banking Group's 2017 financial statements. The Banking Group acknowledges the decision of the Financial Markets Authority that the Banking Group should have disclosed the March 2017 sale as a related party transaction in its 2017 financial statements.

Transactions with other members of the Overseas Banking Group and associates

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

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

NOTES TO THE FINANCIAL STATEMENTS

27. RELATED PARTY DISCLOSURES (continued)

Transactions	2019 NZ$m	2018 NZ$m
Immediate Parent Company		
Interest expense	-	1
Ordinary shares issued	-	3,000
Dividends paid	411	4,611
Ultimate Parent Bank and other subsidiaries not part of the Banking Group		
Interest income	19	13
Interest expense	135	138
Fee income	4	9
Loss on sale of mortgages to the NZ Branch	-	(1)
Other operating income	24	43
Operating expenses	60	52
Mortgages sold to the NZ Branch	-	302
Mortgages repurchased from the NZ Branch	1,098	1,575
Associates		
Direct fee expense	4	10
Dividends received	3	6
Share of associates' profit	4	5

Outstanding balances	2019 NZ$m	2018 NZ$m
Ultimate Parent Bank and other subsidiaries not part of the Banking Group		
Cash and cash equivalents	79	33
Collateral paid	810	-
Derivative financial instruments	3,933	2,431
Other assets	58	39
Associates		
Investments in associates	-	6
Total due from related parties	4,880	2,509
Immediate Parent Company		
Deposits and other borrowings	33	29
Derivative financial instruments	4	1
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Settlement balances payable	66	125
Collateral received	-	257
Deposits and other borrowings	11	11
Derivative financial instruments	4,777	2,248
Payables and other liabilities	24	30
Debt issuances	1,956	1,945
Associates		
Deposits and other borrowings	1	1
Payables and other liabilities	-	1
Post-employment benefit plans for the benefit of employees of the Banking Group		
Deposits and other borrowings	2	-
Total due to related parties	6,874	4,648

Balances due from / to other members of the Overseas Banking Group and associates are unsecured. The Bank has provided guarantees and commitments to, and received guarantees from, these entities as follows. Fees associated with the provision of financial guarantees to/by the Ultimate Parent Bank may be lower than those for similar transactions with unrelated parties.

	2019 NZ$m	2018 NZ$m
Financial guarantees provided by the Ultimate Parent Bank	456	698
Financial guarantees provided to the Ultimate Parent Bank	114	138
Undrawn credit commitments provided to the Immediate Parent Company	250	250
Undrawn credit commitments provided to associates	1	1

28. COMMITMENTS AND CONTINGENT LIABILITIES

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2019 NZ$m	2018 NZ$m
Contract amount of:		
Undrawn facilities	**26,600**	27,245
Guarantees and letters of credit	**1,248**	1,531
Performance related contingencies	**1,502**	1,329
Total	**29,350**	30,105

UNDRAWN FACILITIES

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be only partially used, and others may never be used at all. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements. Based on the earliest date on which the Banking Group may be required to pay, the total undrawn facilities of NZ$26,600 million (2018: NZ$27,245 million) mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE RELATED CONTINGENCIES

Guarantees, letters of credit and performance related contingencies relate to transactions that the Banking Group has entered into as principal – including: guarantees, standby letters of credit and documentary letters of credit.

Documentary letters of credit involve the Banking Group issuing letters of credit guaranteeing payment in favour of an exporter. They are secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingencies are liabilities that oblige the Banking Group to make payments to a third party if the customer fails to fulfil its non-monetary obligations under the contract.

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply to loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Based on the earliest date on which the Banking Group may be required to pay, the total guarantees and letters of credit of NZ$1,248 million (2018: NZ$1,531 million) and total performance related contingencies of NZ$1,502 million (2018: NZ$1,329 million) mature within 12 months.

PROPERTY RELATED COMMITMENTS

	2019 NZ$m	2018 NZ$m
Property capital expenditure		
Contracts for outstanding capital expenditure (not later than 1 year)	**6**	7
Total capital expenditure commitments for property	**6**	7
Lease rentals		
Land and Buildings[1]	**279**	284
Furniture and equipment	**7**	86
Motor vehicles	**6**	8
Total lease rental commitments	**292**	378
Due within 1 year[1]	**53**	79
Due later than 1 year but not later than 5 years[1]	**148**	203
Due later than 5 years[1]	**91**	96
Total lease rental commitments	**292**	378

1 Comparatives have been restated to exclude costs for services to be paid by and reimbursed to the lessor as required by NZ IAS 17 *Leases*.

OTHER CONTINGENT LIABILITIES

There are outstanding court proceedings, claims and possible claims for and against the Banking Group. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice seriously the interests of the Banking Group in relation to the particular matter.

NOTES TO THE FINANCIAL STATEMENTS

28. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Regulatory and customer exposures

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

Reviews under section 95 of the Reserve Bank of New Zealand Act 1989 (RBNZ Act)

On 5 July 2019 RBNZ issued a notice under section 95 of the RBNZ Act, requiring the Bank to obtain two external reviews, the first on the Bank's compliance with certain aspects of the RBNZ Banking Supervision Handbook document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) and the second on the effectiveness of the Bank's directors' attestation and assurance framework. While the director attestation and assurance framework review has now been completed, and the Bank is committed to implementing the recommendations identified and addressing the issues raised, the review of compliance with capital adequacy requirements is ongoing. On 11 December 2019 RBNZ issued a further notice under section 95 of the RBNZ Act, requiring the Bank to obtain an external review of the improvements made to the Bank's directors' attestation and assurance framework.

Warranties and indemnities

The Banking Group has provided warranties, indemnities and other commitments in favour of the purchaser in connection with various disposals of businesses and assets and other transactions, covering a range of matters and risks. It is exposed to potential claims under those warranties, indemnities and commitments.

29. COMPENSATION OF AUDITORS

	2019 NZ$000	2018 NZ$000
KPMG New Zealand		
Audit or review of financial statements[1]	1,852	2,199
Audit related services:		
Prudential and regulatory services[2]	1,418	212
Offer documents assurance or review	111	104
Other assurance services[3]	53	36
Total audit related services	1,582	352
Total compensation of auditors relating to the Banking Group	3,434	2,551
Fees relating to certain managed funds and not recharged[4]	42	45
Total compensation of auditors	3,476	2,596

1 Includes fees for both the audit of the annual financial statements and reviews of interim financial statements.
2 Includes fees for reviews and controls reports required by regulations.
3 Includes fees for Trustee reporting, reviews and other agreed upon procedures engagements.
4 Amounts relate to the ANZ PIE Fund and certain other funds, and include fees for audits of annual financial statements, controls report and other agreed upon procedures engagements.

The Banking Group's Policy allows KPMG New Zealand to provide assurance and other audit related services that, while outside the scope of the statutory audit, are consistent with the role of an external auditor. The Policy allows certain non-audit services to be provided where the service would not contravene auditor independence requirements. KPMG New Zealand may not provide services that are perceived to be in conflict with the role of the external auditor or breach auditor independence. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the external auditor may ultimately be required to express an opinion on its own work.

30. EVENTS SINCE THE END OF THE FINANCIAL YEAR

UDC announced on 29 July 2019 that it had decided to exercise its right to redeem all UDC secured investments, and all UDC secured investments were repaid or transferred to deposits in the Bank on 14 October 2019.

On 31 October 2019, the Bank announced that it is again exploring a range of strategic options, including divestment, for UDC.

There were no other significant events from 30 September 2019 to the date of signing this Disclosure Statement.

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REGISTERED BANK DISCLOSURES

This section contains the additional disclosures required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

B1. GENERAL DISCLOSURES

Details of ultimate parent bank and ultimate holding company

The ultimate parent bank and ultimate holding company of the Bank is Australia and New Zealand Banking Group Limited (Ultimate Parent Bank). The address for service of the Ultimate Parent Bank is ANZ Centre, Melbourne, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

Restrictions on the Ultimate Parent Bank's ability to provide financial support

Effect of APRA's Prudential Standards
The Banking Group is subject to extensive prudential regulation by APRA. APRA's current or future requirements may have an adverse effect on the Bank's business, results of operations, liquidity, capital resources or financial condition.

APRA Prudential Standard APS 222 *Associations with Related Entities* (APS 222) sets minimum requirements for authorised deposit-taking institutions (ADIs) in Australia, including the Ultimate Parent Bank, in relation to the monitoring, management and control of risks which arise from associations with related entities and also includes maximum limits on intra-group financial exposures.

Under APS 222, the Ultimate Parent Bank's ability to provide financial support to the Bank is subject to the following restrictions:
- the Ultimate Parent Bank should not undertake any third party dealings with the prime purpose of supporting the business of the Bank;
- the Ultimate Parent Bank must not hold unlimited exposures (i.e. should be limited as to specified time or amount) in the Bank (e.g. not provide a general guarantee covering any of the Bank's obligations);
- the Ultimate Parent Bank must not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) triggers or is deemed to trigger a default by the Ultimate Parent Bank on its obligations; and
- the level of exposure, net of exposures deducted from capital, of the Ultimate Parent Bank's Level 1 total capital base to the Bank should not exceed: (A) 50% on an individual exposure basis; or (B) 150% in aggregate (being exposures to all similar regulated ADI equivalent entities related to the Ultimate Parent Bank).

In August 2019, APRA released an update to APS 222, which is to be effective from 1 January 2021. Changes that affect the quantum and nature of the financial support that the Ultimate Parent Bank can provide the Bank are:
- change the Level 1 capital base used for setting the exposure limits from total capital to Tier 1 capital; and
- reduce the ADI exposure limit to 25% of Level 1 Tier 1, and the aggregate to 75% of Level 1 Tier 1 capital base.

APRA has provided for entity-specific transitional arrangements or flexibility on a case-by-case basis.

Further, in October 2019, APRA released a consultation paper on changes to APS 111 *Capital Adequacy* (APS 111), which proposes to change the Level 1 capital treatment for Australian ADIs, such as the Ultimate Parent Bank, investing in ADIs (or overseas equivalents such as the Bank) and insurance subsidiaries. The proposed changes, set for implementation from 1 January 2021, would result in:
- the initial investment, up to an amount equal to 10% of the Ultimate Parent Bank's net Level 1 CET1 capital base, being risk-weighted at 250%; and
- the remainder of the investment being treated as a CET1 capital deduction.

If implemented, these APS 111 changes would reduce the Ultimate Parent Bank's Level 1 Tier 1 capital base and exposure to the Bank for the purposes of APS 222 reporting. As a result, the Ultimate Parent Bank's expected exposure to the Bank at 1 January 2021 would be compliant with the revised APS 222 limits.

In addition, APRA has confirmed that by 1 January 2021, no more than 5% of the Ultimate Parent Bank's Level 1 Tier 1 capital base can comprise non-equity exposures to its New Zealand operations (including its subsidiaries incorporated in New Zealand, such as the Banking Group and the New Zealand Branch) during ordinary times. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to the Bank during times of financial stress.

APRA has also confirmed that contingent funding support by the Ultimate Parent Bank to the Bank during times of financial stress must be provided on terms that are acceptable to APRA. At present, only covered bonds meet APRA's criteria for contingent funding.

Effect of the Level 3 framework
In addition, certain requirements of APRA's Level 3 framework relating to, among other things, group governance and risk exposures became effective on 1 July 2017. This framework also requires that the Ultimate Parent Bank must limit its financial and operational exposures to subsidiaries (including the Bank).

In determining the acceptable level of exposure to a subsidiary, the Board of the Ultimate Parent Bank should have regard to:
- the exposures that would be approved for third parties of broadly equivalent credit status;
- the potential impact on the Ultimate Parent Bank's capital and liquidity positions; and
- the Ultimate Parent Bank's ability to continue operating in the event of a failure by the Bank.

These requirements are not expected to place additional restrictions on the Ultimate Parent Bank's ability to provide financial or operational support to the Bank.

Other APRA powers
The Ultimate Parent Bank may not provide financial support in breach of the Australian Banking Act 1959 (the Banking Act). Under the Banking Act:
- APRA must exercise its powers and functions for the protection of a bank's depositors in Australia and for the promotion of financial system stability in Australia; and
- in the event of a bank becoming unable to meet its obligations or suspending payment, the assets of the bank in Australia are to be available to meet that bank's deposit liabilities in Australia in priority to all other liabilities of the bank.

The requirements of the Banking Act and the exercise by APRA of its powers have the potential to impact the management of the liquidity of the Bank.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

Interests in 5% or more of voting securities of the Bank

The Immediate Parent Company holds 100% of the voting securities of the Bank. The Immediate Parent Company has the direct ability to appoint 100% of the Directors of the Bank, subject to RBNZ advising that is has no objection to the appointment in accordance with the Bank's conditions of registration. RBNZ also has the power under section 113B of the Reserve Bank of New Zealand Act 1989, after obtaining the consent of the Minister of Finance, to remove, replace, or appoint directors in certain circumstances.

Priority of creditors' claims

In the event that the Bank was put into liquidation or ceased to trade, claims of secured creditors and those creditors set out in Schedule 7 of the Companies Act 1993 would rank ahead of the claims of unsecured creditors. Customer deposits, except UDC secured investments, are unsecured and rank equally with other unsecured liabilities of the Bank, and such liabilities rank ahead of any subordinated instruments issued by the Bank.

Guarantees

The Bank has guaranteed the payment of interest and principal of covered bonds issued by its subsidiary ANZ New Zealand (Int'l) Limited. This obligation is guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations. The covered bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Refer to page 31 for further details, and to page 49 for the amount of assets of the ANZ Covered Bond Trust pledged as security for covered bonds.

No other material obligations of the Bank are guaranteed as at 12 December 2019.

Auditors

KPMG, 18 Viaduct Harbour Avenue, Auckland, New Zealand.

Directors

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

Transactions with Directors

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

Board Audit Committee

There is a Board Audit Committee which covers audit matters. The committee has five members. Each member is a non-executive Director, the majority of whom satisfy the criteria for independence.

Policy of the Board of Directors for avoiding or dealing with conflicts of interest

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

- at least once in each year, Directors are requested to confirm and disclose, in terms of section 140(1) of the Companies Act 1993, any interests which they have with the Bank itself. Directors are reminded at this time of their obligation under the Companies Act 1993 to disclose promptly any transaction or proposed transaction with the Bank in which they have an interest.
- Directors are also requested to confirm and make a general disclosure of their interest in other entities in terms of section 140(2) of the Companies Act 1993.

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

Disclosures are entered into the Bank's Interests Register.

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

B1. GENERAL DISCLOSURES (continued)



	Rt Hon Sir John Key, GNZM AC	Antony Carter	Shayne Elliott
Position	Independent Non-Executive Director and Chair	Independent Non-Executive Director	Non-Executive Director
Occupation	Company Director	Company Director	Chief Executive Officer, Australia and New Zealand Banking Group Ltd
Qualifications	BCom, DCom (Honoris Causa)	BE (Hons), ME, MPhil, CFInstD, FNZIM	BCom
Resides	Auckland, New Zealand	Auckland, New Zealand	Melbourne, Australia
Other company directorships	Air New Zealand Ltd, Australia and New Zealand Banking Group Ltd, MTK Capital Ltd, Palo Alto Networks Inc, Thirty Eight JK Ltd	Avonhead Mall Ltd, Datacom Group Ltd, Fisher & Paykel Healthcare Corporation Ltd, Fisher & Paykel Healthcare Employee Share Purchase Trustee Ltd, Loughborough Investments Ltd, Modern Merchants Ltd, Strategic Interchange Ltd, Tetrad Corporation Ltd, T R Group Ltd, Vector Ltd	Australia and New Zealand Banking Group Ltd, Financial Markets Foundation for Children


	Alison Gerry	Michelle Jablko
Position	Independent Non-Executive Director	Non-Executive Director
Occupation	Company Director	Chief Financial Officer, Australia and New Zealand Banking Group Ltd
Qualifications	BMS (Hons), MAppFin, CFInstD	LLB (Hons), B.Ec (Hons)
Resides	Queenstown, New Zealand	Melbourne, Australia
Other company directorships	Asteron Life Ltd, Avokaha Ltd, Glendora Avocados Ltd, Glendora Holdings Ltd, Infratil Ltd, Lindis Crossing Vineyard Ltd, On Being Bold Ltd, Sharesies Ltd, Sharesies Nominee Ltd, Vero Insurance New Zealand Ltd, Vero Liability Insurance Ltd, Wellington International Airport Ltd	ANZ Holdings (New Zealand) Ltd, Bialik College Ltd


	Mark Verbiest	Joan Withers
Position	Independent Non-Executive Director	Independent Non-Executive Director
Occupation	Company Director	Company Director
Qualifications	LLB, CFInstD	MBA, CFInstD
Resides	Wanaka, New Zealand	Auckland, New Zealand
Other company directorships	Bear Fund NZ Ltd, Freightways Ltd, Meridian Energy Ltd, Willis Bond Capital Partners Ltd, Willis Bond General Partner Ltd	On Being Bold Ltd, Sky Network Television Ltd, The Warehouse Group Ltd, The Warehouse Planit Trustees Ltd, The Warehouse Management Trustee Company Ltd, The Warehouse Management Trustee Company No.2 Ltd

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

Conditions of registration

The following conditions of registration were applicable as at 30 September 2019, and have applied from 30 June 2019.

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

1. That—

(a) the Total capital ratio of the banking group is not less than 8%;

(b) the Tier 1 capital ratio of the banking group is not less than 6%;

(c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;

(d) the Total capital of the banking group is not less than $30 million;

(e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and

(f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

For the purposes of this condition of registration, —

"supervisory adjustment" referred to in Part 3 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is calculated as the scalar times the sum of:

(a) the greater of:
i. 27.66 percent of the exposure-at-default (EAD) amount of non-defaulted standard residential mortgage loans less the risk-weighted asset amount (without scalar) calculated using the bank's approved IRB models for non-defaulted standard residential mortgage loans; and
ii. zero;

and

(b) the greater of:
i. 75.47 percent of the exposure-at-default (EAD) amount of non-defaulted corporate farm lending exposures less the risk-weighted asset amount (without scalar) calculated using the bank's approved IRB models for non-defaulted corporate farm lending exposures; and
ii. zero;

"standard residential mortgage loan" has the same meaning as in 4.7(a) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B), dated November 2015;

"corporate farm lending exposures" has the same meaning as in 4.4(c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 and elsewhere in this condition of registration is 1.06;

"Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015, except that in the formulae for calculating the ratios, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

"Total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

a Tier 2 capital instrument is an instrument that meets the requirements of subsection 2.16(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

1A. That—

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

(b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015; and

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

1B. That the bank complies with the minimum requirements set out in the following sections of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015:

(a) the model approval requirements in section 1.3A;

(b) the compendium requirements in section 1.3B;

(c) the minimum requirements for the IRB approach in sections 4.217 to 4.324 (that is, Subpart 4C of BS2B); and

(d) the minimum qualitative requirements for using the Advanced Measurement Approach ("AMA") for operational risk set out in section 8.4(a) and sections 8.5 to 8.14.

B1. GENERAL DISCLOSURES (continued)

1C. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:

(a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the bank's earnings
0% - 0.625%	0%
>0.625 - 1.25%	20%
>1.25 - 1.875%	40%
>1.875 - 2.5%	60%

(b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and

(c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration,—

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015, except that in the formula for calculating the buffer ratio, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06.

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

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

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

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

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

In determining the total amount of the banking group's insurance business—

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

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

For the purposes of this condition of registration,—

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

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

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

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

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

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the banking group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated November 2015.

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

6. That the bank complies with the following corporate governance requirements:
   (a) the board of the bank must have at least five directors;
   (b) the majority of the board members must be non-executive directors;
   (c) at least half of the board members must be independent directors;
   (d) an alternate director,—
      (i) for a non-executive director must be non-executive; and
      (ii) for an independent director must be independent;
   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
   (f) the chairperson of the board of the bank must be independent; and
   (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the bank;
   (d) the majority of the members of the committee must be independent; and
   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

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

11. That the bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the bank that are carried on by a person other than the bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the bank or of a service provider to the bank, the following outcomes:
   (a) that the bank's clearing and settlement obligations due on a day can be met on that day;
   (b) that the bank's financial risk positions on a day can be identified on that day;
   (c) that the bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
   (d) that the bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

   This condition ceases to apply in respect of an existing outsourcing arrangement on the earlier of either 1 October 2022 or when the existing outsourcing arrangement becomes compliant with condition 24, from which point in time condition 24 will apply to that outsourcing arrangement.

   For the purposes of this condition of registration:
   (a) the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006; and
   (b) the term "existing outsourcing arrangement" is defined in the Reserve Bank of New Zealand document entitled "Outsourcing Policy (BS11)" dated September 2017.

12. That:
   (a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;
   (b) the employment contract of the chief executive officer of the bank or person in an equivalent position (together "CEO") is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank; and
   (c) all staff employed by the bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and be accountable (directly or indirectly) to the CEO of the bank.

B1. GENERAL DISCLOSURES (continued)

13. That the banking group complies with the following quantitative requirements for liquidity-risk management:
    (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
    (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
    (c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated January 2018 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated October 2018.

14. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:
    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
    (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
    (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

15. That no more than 10% of total assets may be beneficially owned by a SPV.

    For the purposes of this condition,—

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

    "SPV" means a person—
    (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
    (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
    (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

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

16. That—
    (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
    (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
        (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

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

17. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—
    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—
        (i) all liabilities are frozen in full; and
        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
    (b) apply a *de minimis* to relevant customer liability accounts;
    (c) apply a partial freeze to the customer liability account balances;
    (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
    (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
    (f) reinstate customers' access to some or all of their residual frozen funds.

    For the purposes of this condition of registration, "*de minimis*", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

18. That the bank has an Implementation Plan that—
    (a) is up-to-date; and
    (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS17) dated September 2013.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

19. That the bank has a compendium of liabilities that—
    (a) at the product-class level lists all liabilities, indicating which are—
        (i) pre-positioned for Open Bank Resolution; and
        (ii) not pre-positioned for Open Bank Resolution;
    (b) is agreed to by the Reserve Bank; and
    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

    For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

20. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

21. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

22. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

23. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

24. That the bank must comply with the Reserve Bank of New Zealand document "Outsourcing Policy" (BS11) dated September 2017.

In these conditions of registration,—

"banking group" means ANZ Bank New Zealand Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 21 to 23,—

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2019:

"loan-to-valuation measurement period" means—

(a) the three calendar month period ending on the last day of March 2019; and

(b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of April 2019.

Changes since 31 March 2019

Effective 15 May 2019, the Bank's conditions of registration were amended to require the Banking Group's operational risk capital (ORC) requirement to be calculated in accordance with BS2A.

Effective 30 June 2019, the Bank's conditions of registration were amended to include a supervisory adjustment to the Banking Group's capital adequacy calculations. This supervisory adjustment introduced minimum pre-scalar risk weightings for residential mortgage exposures and corporate farm lending exposures.

Non-compliance with conditions of registration

a) Condition of Registration 1B – compliance with BS2B

A number of reviews of the Banking Group's application of, and compliance with, BS2B have been conducted both internally and by external parties. These reviews have identified the instances of non-compliance with Condition of Registration 1B on the following page.

The aggregate impact of the matters noted below as at 30 September 2019 was an understatement of risk weighted assets (RWA) of NZ$203 million, compared to reported RWA of NZ$97,070 million. This net increase in RWA would decrease the Banking Group's capital ratios by less than 0.03% and would change the reported CET 1 capital ratio to 10.7% from 10.8%, but is not sufficient to affect the reported tier 1 and total capital ratios.

As at 30 September 2019, the Banking Group's total regulatory capital of over NZ$13 billion was more than NZ$4 billion (44%) higher than the minimum 10.5% (including buffer) of RWA required.

B1. GENERAL DISCLOSURES (continued)

Area	Details
ORC model (reported in March 2019 disclosure statement)	In April 2019, the Bank informed RBNZ that in the course of a self-review, the Bank discovered that it had not been using an approved model for the calculation of the ORC requirement since December 2014. ORC was calculated for the Bank by the Ultimate Parent Bank. A failure of systems and controls, as well as no verification being undertaken by the Bank, meant that the Ultimate Parent Bank decommissioned the RBNZ approved model without the Bank ensuring that it had the necessary regulatory approvals in place to move to a new model. Calculation of the ORC requirement since December 2014 was based on a previous RBNZ approved ORC model output last run in September 2014, with an adjustment to reflect the growth of the Banking Group's business. The Bank accepts that this was not in compliance with condition of registration 1B. The adoption of this calculation and decommissioning of the authorised ORC model occurred following development of a new ORC model in 2015 to be used by the Overseas Banking Group that better reflected the risks in the business. This new ORC model was approved by APRA in September 2015 and subsequently submitted to RBNZ for approval in June 2016. In 2016, RBNZ suspended approval of capital models and, the new ORC model has not been approved. The RBNZ decided that the Banking Group's ORC requirement would be calculated in accordance with BS2A, and the Bank's Conditions of Registration were amended to this effect from 15 May 2019. As a result, as at 31 March 2019, the Banking Group's ORC requirement increased by NZ$277 million, and its capital ratios decreased by 40 basis points for CET 1 capital and 60 basis points for total capital. Restatement of prior period comparatives was not required.
Credit risk models	The Bank has not complied with condition of registration 1B in relation to the implementation of changes to rating models and processes that were not approved by RBNZ. Affected models and the initial dates of non-compliance are noted below. Applying the last RBNZ approved methodologies to the affected exposures as at 30 September 2019 would decrease RWA by NZ$47 million (0.05%) in aggregate, which is not sufficient to affect the reported capital ratios. • Commercial Property Model Suite (Single Investment, Multi Investment, Hotel Investment, Special Purpose Asset Investment, Single Residential Development, Commercial Development, Englobo Land Pre Development) - 2011 • Non-Bank Financial Institutions Model Suite (Life Insurance, Non-life Insurance, Insurance Holding Company, Finance Companies, Financial Services Companies, Real Money Funds) - 2009 • Project and Structured Finance - 2009 • Bank, Country & Sovereigns - 2008 The Bank's model compendium required under section 1.3B of BS2B is not accurate as it includes unapproved model changes. The Bank is working with RBNZ on this issue.
Other calculation matters	Until 31 December 2018, Condition of Registration 1B required compliance with all aspects of BS2B. Effective 1 January 2019, the Bank's conditions of registration were amended to refer to specific sections of BS2B only. Errors were identified in the calculations of risk-weighted assets that meant that the Bank had not complied with Condition of Registration 1B from the emergence of the errors, as noted in the table below, until 31 December 2018. The Bank does not consider that these errors would have materially affected the reported capital ratios. The effect on RWA of each of these errors as at 30 September 2019 is shown below. The net increase in RWA would change the reported CET 1 capital ratio to 10.7% from 10.8%, but is not sufficient to affect the reported tier 1 and total capital ratios.

Understatement / (overstatement) of RWA	BS2B ref	Error since	30 Sep 19 NZ$m
Credit risk - LGD calculated incorrectly for a small number of farm lending exposures[1]	4.61A	2017	(1)
Credit risk - incorrect EAD factor of 23%, instead of 33%, applied to UDC retail commitments[1]	4.64B	2017	2
Credit risk - exposures incorrectly risk weighted as standardised (100%) rather than advanced (360%)[2]		2017	30
Credit risk - asset value correlation multiplier applied using a threshold of A$100m rather than NZ$120m[3]	4.136A	2013	(10)
Market risk - net interest rate risk for some currency exposures calculated in aggregate rather than individually[2]	7	2008	23
Market risk - modelling of forward interest rate agreements and interest rate futures	7	2008	206
Net understatement / (overstatement) of RWA			**250**
Reported risk weighted assets			97,070
Aggregate error in risk weighted assets (%)			0.26%

[1] Issue corrected for the calculation of risk-weighted assets at 30 November 2019.
[2] Issue will be corrected for the 31 December 2019 capital adequacy calculation.
[3] Issue will be resolved following the necessary system change.

In addition to the above, in relation to the calculation of market risk capital under part 7 of BS2B:

- A formula error created in October 2010, had a maximum impact in March 2017 that understated the market risk capital requirement by $37 million, but did not affect the reported capital ratios. This was corrected as at 30 September 2019.
- The system that calculates market risk capital allocates small portions of loan principal to incorrect time periods. These movements could be in both directions, depending on the time of month and timing and frequency of payments, and so may result in either an overstatement or an understatement of the market risk capital requirement. The impact can be modelled on examples of loans but is unable to be quantified with accuracy across the portfolio. The issue, which has existed since 1999, had been documented and assessed as immaterial, however as a zero materiality threshold is applied, constituted a breach of condition of registration 1B.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

b) Condition of Registration 5 - Exposures to connected persons not on more favourable terms (BS8)

From time to time, the Bank provides a guarantee or standby letter of credit to a third party in respect of an obligation of a customers of the Ultimate Parent Bank. The Ultimate Parent Bank provides a counter-guarantee or standby letter of credit to the Bank, giving the Bank recourse directly to the Ultimate Parent Bank if the guarantee or standby letter of credit the Bank provides in respect of the customer's obligations is called upon. The Bank charges the Ultimate Parent Bank a fee for this service. However, through an internal review, the Bank identified that since January 2014 this fee has been lower than the fee charged for this same service provided to unrelated banks and, as a result, the Bank has not complied with condition of registration 5. As at 30 September 2018, the value of the exposure was NZ$698 million, and was NZ$456 million across 246 individual transactions at 30 September 2019. The Bank is currently working to establish a revised pricing methodology for these transactions. The Bank anticipates this will be in place for all new transactions entered into after 31 December 2019.

c) Condition of Registration 13 - Liquidity ratios (BS13)

During a review, the following matters of non-compliance with BS13 were identified. These errors were not sufficient to affect the reported liquidity ratios.

- Under BS13, 'Market Funding' entities are defined by reference to the 2006 ANZSIC code K62. A sub-code was incorrectly allocated to 'Non-Market'. This error had existed since 2017. This error was corrected as at 30 September 2019, and decreased the one week and one month mismatches and core funding by NZ$2.1 million but did not affect the reported ratios.
- The Bank calculated the next cash inflow on variable-rate housing loans based on a current wholesale rate plus the existing margin rather than using the current interest rate to calculate the inflow. This calculation error has existed since 2010. As at 30 September 2019, the difference led to an understatement of the one week and one month liquidity mismatches by NZ$0.07 million and NZ$2.8 million respectively but did not affect the reported ratios.
- The liquidity ratio calculation system and the system of record for certain bond liabilities and certain swaps calculate future cash flows differently. The difference has been known since 2017. The difference led to an understatement of the one month mismatch by $0.9 million as at 30 September 2019, but did not affect the reported ratio.

d) Condition of Registration 24 – Outsourcing (BS11 dated September 2017)

BS11 requires the Bank to apply specified risk mitigants against each outsourcing arrangement. During the year ended 30 September 2019, the Bank outsourced two arrangements to the Overseas Banking Group without the required prescribed contractual terms. These arrangements will be remediated in the year ending 30 September 2020.

BS11 requires the Bank to have a compendium of information about outsourcing arrangements in place by 1 October 2019. In November 2019, the Bank informed RBNZ that minor data discrepancies had been identified for certain information entered in the compendium during the year ended 30 September 2019.

Other matters under review

There are several matters under review, including the calculation of the market risk capital requirement (under BS2B) and liquidity ratios (under BS13 and BS13A), where there may be more than one valid interpretation of the respective policy wording or requirement. Where there may be some uncertainty about the interpretation the Bank has applied, where appropriate it will seek further guidance from RBNZ and other parties on these matters. In the Bank's current view, the potential impact of the application of other interpretations is immaterial to reported ratios.

Reviews under section 95 of the Reserve Bank of New Zealand Act 1989

On 5 July 2019, the RBNZ gave the Bank notice, under section 95 of the Reserve Bank of New Zealand Act 1989, requiring the Bank to engage an external reviewer to provide reports regarding the Bank's compliance with the RBNZ's capital adequacy requirements and the effectiveness of the Bank's director attestation and assurance framework. The scope of the director attestation and assurance framework review also included four case studies covering the ORC breach, mischaracterisation of the former CEO's expenses, transactions relating to the 2017 sale of a residential property to the wife of the former CEO, and the 2018 conditions of registration breach relating to the treatment of commitments jointly held with the Ultimate Parent Bank.

The director attestation and assurance framework review has been completed. The review identified a number of recommendations to improve the director attestation and assurance framework. The Bank accepts the findings of the director attestation and assurance framework review and is committed to implementing the recommendations identified and addressing the issues raised. On 11 December 2019 RBNZ issued a further notice under section 95 of the RBNZ Act, requiring the Bank to obtain an external review of the improvements made to the Bank's directors' attestation and assurance framework.

The Bank is continuing to work with the RBNZ and the external reviewer to undertake the review regarding the Bank's compliance with the RBNZ's capital adequacy requirements.

B1. GENERAL DISCLOSURES (continued)

Other material matters

Outcome of the RBNZ capital review

On 14 December 2018, the RBNZ sought feedback on proposals to reform the amount of regulatory capital required of banks incorporated in New Zealand. On 5 December 2019, the RBNZ released its final decisions in respect of these proposals.

While the increase in capital remains significant, as a result of the consultation process there have been changes to the capital instruments and the transition period to the new regime.

The key changes to the RBNZ final capital requirements relative to the consultation paper are:

- No change in total Tier 1 capital required for the Banking Group of 16%, however the transition period is longer at seven years.
- A greater proportion of the increase is in AT1 capital (2.5% compared to the initial proposal of 1.5%), decreasing the amount of CET1 capital required.
- Redeemable preference shares allowable as AT1 capital. It is anticipated that the Bank will be able to refinance existing internal AT1 securities (issued to the Immediate Parent Company) to external counterparties.

Any changes will be implemented gradually, considering the market is competitive for lending. The Banking Group has already started preparing for the change. Of the Banking Group's NZ$1.8 billion net profit after tax in for the year ended 30 September 2019, approximately 80% has been retained in response to the proposals.

Credit rating

As at 12 December 2019 the Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars. On 9 July 2019, S&P Global Ratings changed the outlook on the Bank from Negative to Stable. On 17 July 2019, Fitch Ratings changed the outlook on the Bank from Stable to Negative.

The Bank's credit ratings are:

Rating agency	Credit rating	Qualification
S&P Global Ratings	AA-	Outlook Stable
Fitch Ratings	AA-	Outlook Negative
Moody's Investors Service	A1	Outlook Stable

The following table describes the credit rating grades available:

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

Credit ratings from S&P Global Ratings and Fitch Ratings may be modified by the addition of "+" or "-" to show the relative standing within the "AA" to "B" categories. Moody's Investors Service applies numerical modifiers 1, 2, and 3 to each of the "Aa" to "Caa" classifications, with 1 indicating the higher end and 3 the lower end of the rating category.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

Historical summary of financial statements

Income statement	2019 NZ$m	2018 NZ$m	2017 NZ$m	2016 NZ$m	2015 NZ$m
Interest income	6,423	6,390	6,198	6,423	6,926
Interest expense	(3,179)	(3,240)	(3,161)	(3,421)	(4,051)
Net interest income	3,244	3,150	3,037	3,002	2,875
Non-interest income	946	1,126	938	852	1,175
Operating income	4,190	4,276	3,975	3,854	4,050
Operating expenses	(1,608)	(1,517)	(1,468)	(1,599)	(1,512)
Credit impairment charge	(101)	(55)	(62)	(150)	(74)
Profit before income tax	2,481	2,704	2,445	2,105	2,464
Income tax expense	(662)	(751)	(680)	(570)	(681)
Profit after income tax	1,819	1,953	1,765	1,535	1,783
Dividends paid	(411)	(4,611)	(1,695)	(1,363)	(1,760)
Share capital issued	-	3,000	-	-	675
Balance sheet					
Total assets	169,416	159,012	153,973	160,819	147,527
Total individually impaired assets	285	321	357	426	382
Total impaired assets (i.e. stage 3)	729	n/a	n/a	n/a	n/a
Total liabilities	154,986	145,903	141,192	148,109	135,074
Equity	14,430	13,109	12,781	12,710	12,453

The amounts included in this summary have been taken from the audited financial statements of the Banking Group.

Pending proceedings or arbitration

A description of any pending legal proceedings or arbitration concerning any member of the Banking Group that may have a material adverse effect on the Bank or the Banking Group is included in Note 28 Commitments and Contingent Liabilities.

Directors' statements

The Directors' statement is included on page 98.

Auditor's report

The auditor's report is included on page 99.

Index

The index to the contents of the Disclosure Statement is included on page 2, and an index to the contents of the financial statements is included on page 3.

B2. ADDITIONAL FINANCIAL DISCLOSURES

Additional information on the balance sheet

	2019 NZ$m	2018 NZ$m
Total interest earning and discount bearing assets	153,298	145,322
Total interest and discount bearing liabilities	129,494	124,625

B2. ADDITIONAL FINANCIAL DISCLOSURES (continued)

Additional information on interest rate sensitivity

The following tables represent the interest rate sensitivity of the Banking Group's assets, liabilities and off-balance sheet instruments by showing the periods in which these instruments may reprice, that is, when interest rates applicable to each asset or liability can be changed.

2019	Total NZ$m	Up to 3 months NZ$m	Over 3 to 6 months NZ$m	Over 6 to 12 months NZ$m	Over 1 to 2 years NZ$m	Over 2 years NZ$m	Not bearing interest NZ$m
Assets							
Cash and cash equivalents	2,363	2,081	-	-	-	-	282
Settlement balances receivable	193	-	-	-	-	-	193
Collateral paid	2,324	2,324	-	-	-	-	-
Trading securities	8,942	650	253	253	1,624	6,162	-
Derivative financial instruments	11,666	-	-	-	-	-	11,666
Investment securities	7,027	256	148	247	1,997	4,378	1
Net loans and advances	132,525	64,764	10,935	23,041	24,522	9,663	(400)
Other financial assets	622	-	-	-	-	-	622
Total financial assets	165,662	70,075	11,336	23,541	28,143	20,203	12,364
Liabilities							
Settlement balances payable	1,607	451	-	-	-	-	1,156
Collateral received	991	991	-	-	-	-	-
Deposits and other borrowings	113,427	70,546	16,367	10,978	2,221	1,520	11,795
Derivative financial instruments	11,042	-	-	-	-	-	11,042
Debt issuances	26,207	3,499	1,486	3,446	4,266	13,510	-
Other financial liabilities	841	213	-	-	-	-	628
Total financial liabilities	154,115	75,700	17,853	14,424	6,487	15,030	24,621
Hedging instruments	-	(6,725)	11,340	698	(9,612)	4,299	-
Interest sensitivity gap	11,547	(12,350)	4,823	9,815	12,044	9,472	(12,257)

Reconciliation of mortgage related amounts

As at 30 September 2019	Note	NZ$m
Term loans - housing[1]	11	84,007
Less: fair value adjustment on mortgages repurchased from the NZ Branch		(1)
Less: housing loans made to corporate customers		(2,109)
Add: unsettled re-purchases of mortgages from the NZ Branch		4
On-balance sheet residential mortgage exposures subject to the IRB approach	B4	81,901
Add: off-balance sheet residential mortgage exposures subject to the IRB approach	B4	8,268
Total residential mortgage exposures subject to the IRB approach (as per LVR analysis)	B4	90,169

[1] Term loans – housing includes loans secured over residential property for owner-occupier, residential property investment and business purposes.

B3. ASSET QUALITY

Collectively assessed loss allowances

Collectively assessed loss allowances - Total	Note	Residential mortgages NZ$m	Other retail exposures NZ$m	Corporate exposures NZ$m	Total NZ$m
As at 30 September 2018 (NZ IAS 39)		82	118	182	382
NZ IFRS 9 transition adjustment	1,12	(36)	20	88	72
As at 1 October 2018 (NZ IFRS 9)		46	138	270	454

Collectively assessed loss allowances - recognised in:					
Net loans and advances		46	108	217	371
Provisions		-	30	53	83
As at 1 October 2018 (NZ IFRS 9)		46	138	270	454

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – total

Net loans and advances - total	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	160	171	40	130	501
Transfer between stages	29	(40)	3	8	-
New and increased provisions (net of collective provision releases)	(25)	63	(1)	121	158
Write-backs	-	-	-	(48)	(48)
Recoveries of amounts previously written off	-	-	-	(23)	(23)
Credit impairment charge	4	23	2	58	87
Bad debts written-off (excluding recoveries)	-	-	-	(106)	(106)
Add back recoveries of amounts previously written off	-	-	-	23	23
Discount unwind	-	-	-	(8)	(8)
As at 30 September 2019	164	194	42	97	497
Off-balance sheet credit related commitments - total					
As at 1 October 2018	59	22	2	-	83
Transfer between stages	5	(5)	-	-	-
New and increased provisions (net of collective provision releases)	(4)	7	-	11	14
Credit impairment charge	1	2	-	11	14
As at 30 September 2019	60	24	2	11	97

Impacts of changes in gross financial assets on loss allowances - total

Gross loans and advances - total	Stage 1	Stage 2	Stage 3 Collectively assessed	Stage 3 Individually assessed	Total
As at 1 October 2018	118,878	7,448	331	321	126,978
Net transfers in to each stage	-	1,979	206	203	2,388
Amounts drawn from new or existing facilities	21,123	687	35	105	21,950
Additions	21,123	2,666	241	308	24,338
Net transfers out of each stage	(2,372)	-	-	(16)	(2,388)
Amounts repaid	(14,344)	(1,106)	(128)	(222)	(15,800)
Deletions	(16,716)	(1,106)	(128)	(238)	(18,188)
Amounts written off	-	-	-	(106)	(106)
As at 30 September 2019	123,285	9,008	444	285	133,022
Loss allowance as at 30 September 2019	164	194	42	97	497
Off-balance sheet credit related commitments - total					
As at 1 October 2018	28,882	1,198	11	14	30,105
Net transfers in to each stage	38	29	4	14	85
Amounts drawn from new or existing facilities	3,896	78	1	-	3,975
Additions	3,934	107	5	14	4,060
Net transfers out of each stage	(31)	(45)	-	(9)	(85)
Amounts repaid	(4,294)	(423)	(13)	-	(4,730)
Deletions	(4,325)	(468)	(13)	(9)	(4,815)
Amounts written off	-	-	-	-	-
As at 30 September 2019	28,491	837	3	19	29,350
Loss allowance as at 30 September 2019	60	24	2	11	97

Explanation of how changes in the gross carrying amounts of gross loans and advances contributed to changes in loss allowance

Overall, loss allowances on gross loans and advances have remained stable at approximately 0.4% of gross loans and advances. Loss allowances have increased by NZ$10 million (2%) driven by an increase in the proportion of gross loans and advances in Stage 2 and Stage 3, offset by a net decrease in Stage 3 individually assessed exposures as a result of amounts written-off.

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – residential mortgages

			Stage 3		
Net loans and advances - residential mortgages	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	13	26	7	21	67
Transfer between stages	11	(10)	-	(1)	-
New and increased provisions (net of collective provision releases)	(6)	9	5	7	15
Write-backs	-	-	-	(5)	(5)
Recoveries of amounts previously written off	-	-	-	-	-
Credit impairment charge / (release)	5	(1)	5	1	10
Bad debts written-off (excluding recoveries)	-	-	-	-	-
Add back recoveries of amounts previously written off	-	-	-	-	-
Discount unwind	-	-	-	-	-
As at 30 September 2019	18	25	12	22	77

Off-balance sheet credit related commitments - residential mortgages					
As at 1 October 2018	-	-	-	-	-
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	-	-	-	-	-
Credit impairment charge	-	-	-	-	-
As at 30 September 2019	-	-	-	-	-

Impacts of changes in gross financial assets on loss allowances - residential mortgages

Gross loans and advances - residential mortgages					
As at 1 October 2018	73,992	1,948	203	25	76,168
Net transfers in to each stage	-	815	169	25	1,009
Amounts drawn from new or existing facilities	14,769	360	22	6	15,157
Additions	14,769	1,175	191	31	16,166
Net transfers out of each stage	(1,001)	-	-	(8)	(1,009)
Amounts repaid	(8,632)	(648)	(121)	(23)	(9,424)
Deletions	(9,633)	(648)	(121)	(31)	(10,433)
Amounts written off	-	-	-	-	-
As at 30 September 2019	79,128	2,475	273	25	81,901
Loss allowance as at 30 September 2019	18	25	12	22	77

Off-balance sheet credit related commitments - residential mortgages					
As at 1 October 2018	8,206	26	-	-	8,232
Net transfers in to each stage	-	21	-	-	21
Amounts drawn from new or existing facilities	1,107	4	-	-	1,111
Additions	1,107	25	-	-	1,132
Net transfers out of each stage	(21)	-	-	-	(21)
Amounts repaid	(1,060)	(15)	-	-	(1,075)
Deletions	(1,081)	(15)	-	-	(1,096)
Amounts written off	-	-	-	-	-
As at 30 September 2019	8,232	36	-	-	8,268
Loss allowance as at 30 September 2019	-	-	-	-	-

Explanation of how changes in the gross carrying amounts of residential mortgages contributed to changes in loss allowance

The NZ$10 million (14.9%) increase in loss allowances on residential mortgage exposures is primarily driven by an increase in overall gross carrying amounts, and an increase in the proportion of Stage 2 and Stage 3 collectively assessed exposures. Overall loss allowances and individually impaired exposures remain low, reflecting that approximately 95% of on-balance sheet residential mortgage exposures have loan to valuation ratios not exceeding 80% (refer to page 84).

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – other retail exposures

Net loans and advances - other retail exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	28	55	25	11	119
Transfer between stages	13	(18)	1	4	-
New and increased provisions (net of collective provision releases)	(15)	14	(2)	84	81
Write-backs	-	-	-	(11)	(11)
Recoveries of amounts previously written off	-	-	-	(20)	(20)
Credit impairment charge / (release)	(2)	(4)	(1)	57	50
Bad debts written-off (excluding recoveries)	-	-	-	(74)	(74)
Add back recoveries of amounts previously written off	-	-	-	20	20
Discount unwind	-	-	-	-	-
As at 30 September 2019	26	51	24	14	115
Off-balance sheet credit related commitments - other retail exposures					
As at 1 October 2018	18	10	2	-	30
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	(4)	4	-	-	-
Credit impairment charge / (release)	(1)	1	-	-	-
As at 30 September 2019	17	11	2	-	30

Impacts of changes in gross financial assets on loss allowances - other retail exposures

Gross loans and advances - other retail exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	3,288	315	48	25	3,676
Net transfers in to each stage	-	-	-	38	38
Amounts drawn from new or existing facilities	472	33	4	69	578
Additions	472	33	4	107	616
Net transfers out of each stage	(32)	-	-	(6)	(38)
Amounts repaid	(593)	(43)	(7)	(22)	(665)
Deletions	(625)	(43)	(7)	(28)	(703)
Amounts written off	-	-	-	(74)	(74)
As at 30 September 2019	3,135	305	45	30	3,515
Loss allowance as at 30 September 2019	26	51	24	14	115
Off-balance sheet credit related commitments - other retail exposures					
As at 1 October 2018	4,859	54	4	-	4,917
Net transfers in to each stage	-	8	2	-	10
Amounts drawn from new or existing facilities	312	8	-	-	320
Additions	312	16	2	-	330
Net transfers out of each stage	(10)	-	-	-	(10)
Amounts repaid	(583)	(24)	(3)	-	(610)
Deletions	(593)	(24)	(3)	-	(620)
Amounts written off	-	-	-	-	-
As at 30 September 2019	4,578	46	3	-	4,627
Loss allowance as at 30 September 2019	17	11	2	-	30

Explanation of how changes in the gross carrying amounts of other retail exposures contributed to changes in loss allowance

Loss allowances have decreased by NZ$4 million (2.7%) reflecting the reduction in gross carrying amounts, offset by a net increase in Stage 3 individually assessed exposures.

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – corporate exposures

Net loans and advances - corporate exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	119	90	8	98	315
Transfer between stages	5	(12)	2	5	-
New and increased provisions (net of collective provision releases)	(4)	40	(4)	30	62
Write-backs	-	-	-	(32)	(32)
Recoveries of amounts previously written off	-	-	-	(3)	(3)
Credit impairment charge / (release)	1	28	(2)	-	27
Bad debts written-off (excluding recoveries)	-	-	-	(32)	(32)
Add back recoveries of amounts previously written off	-	-	-	3	3
Discount unwind	-	-	-	(8)	(8)
As at 30 September 2019	120	118	6	61	305
Off-balance sheet credit related commitments - corporate exposures					
As at 1 October 2018	41	12	-	-	53
Transfer between stages	2	(2)	-	-	-
New and increased provisions (net of collective provision releases)	-	3	-	11	14
Credit impairment charge	2	1	-	11	14
As at 30 September 2019	43	13	-	11	67

Impacts of changes in gross financial assets on loss allowances - corporate exposures

Gross loans and advances - corporate exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	41,598	5,185	80	271	47,134
Net transfers in to each stage	-	1,164	37	140	1,341
Amounts drawn from new or existing facilities	5,882	294	9	30	6,215
Additions	5,882	1,458	46	170	7,556
Net transfers out of each stage	(1,339)	-	-	(2)	(1,341)
Amounts repaid	(5,119)	(415)	-	(177)	(5,711)
Deletions	(6,458)	(415)	-	(179)	(7,052)
Amounts written off	-	-	-	(32)	(32)
As at 30 September 2019	41,022	6,228	126	230	47,606
Loss allowance as at 30 September 2019	120	118	6	61	305
Off-balance sheet credit related commitments - corporate exposures					
As at 1 October 2018	15,817	1,118	7	14	16,956
Net transfers in to each stage	38	-	2	14	54
Amounts drawn from new or existing facilities	2,477	66	1	-	2,544
Additions	2,515	66	3	14	2,598
Net transfers out of each stage	-	(45)	-	(9)	(54)
Amounts repaid	(2,651)	(384)	(10)	-	(3,045)
Deletions	(2,651)	(429)	(10)	(9)	(3,099)
Amounts written off	-	-	-	-	-
As at 30 September 2019	15,681	755	-	19	16,455
Loss allowance as at 30 September 2019	43	13	-	11	67

Explanation of how changes in the gross carrying amounts of corporate exposures contributed to changes in loss allowance

The NZ$4 million (1.1%) increase in loss allowances on corporate exposures was primarily driven by an increase in the proportion of Stage 2 collectively assessed exposures, offset by a net decrease in Stage 3 individually assessed exposures.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Past due assets

	2019				2018			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Less than 30 days past due	505	177	413	1,095	595	186	639	1,420
At least 30 days but less than 60 days past due	141	32	85	258	109	31	39	179
At least 60 days but less than 90 days past due	162	18	13	193	105	20	3	128
At least 90 days past due	263	30	31	324	152	34	19	205
Total past due but not individually impaired	1,071	257	542	1,870	961	271	700	1,932

Other asset quality information								
Undrawn facilities with individually impaired customers	-	-	19	19	-	-	14	14
Other assets under administration	2	2	-	4	7	2	-	9

Asset quality for financial assets designated at fair value

The Banking Group does not have any loans and advances designated at fair value through profit or loss.

2018 Asset quality disclosure under NZ IAS 39

The below disclosure does not reflect the adoption of NZ IFRS 9 and is prepared under the requirements of the previous NZ IAS 39.

Movement in individually impaired assets

	2018			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Balance at beginning of the period	31	20	306	357
Additions	21	107	267	395
Amounts written off	(1)	(77)	(71)	(149)
Deletions	(26)	(25)	(231)	(282)
Balance at end of the period	25	25	271	321
Individual provision	21	11	98	130

Movement in balances of individual credit impairment allowances

	2018			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Balance at beginning of the period	25	6	121	152
Individual credit impairment charge / (release)				
New and increased provisions	7	90	116	213
Write-backs	(9)	(8)	(66)	(83)
Recoveries of amounts previously written off	-	(21)	(9)	(30)
Individual credit impairment charge / (release)	(2)	61	41	100
Bad debts written off	(1)	(77)	(71)	(149)
Add back recoveries of amounts previously written off	-	21	9	30
Discount unwind	(1)	-	(2)	(3)
Balance at end of the period	21	11	98	130

Movement in balances of collective credit impairment allowances

	2018			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Balance at beginning of the period	75	121	231	427
Charge / (release) to income statement	7	(3)	(49)	(45)
Balance at end of the period	82	118	182	382

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED)

RBNZ Basel III capital ratios

	Banking Group			Bank (Solo Consolidated)	
	RBNZ minimum	2019	2018	2019	2018
Common equity tier 1 capital	4.5%	10.8%	11.1%	9.7%	9.5%
Tier 1 capital	6.0%	13.6%	14.4%	12.6%	13.0%
Total capital	8.0%	13.6%	14.4%	12.6%	13.0%
Buffer ratio	2.5%	5.6%	6.4%	n/a	n/a

Capital of the Banking Group

As at 30 September 2019	Note	NZ$m
Tier 1 capital		
Common equity tier 1 (CET1) capital		
Paid up ordinary shares issued by the Bank	21	11,588
Retained earnings (net of appropriations)		2,521
Accumulated other comprehensive income and other disclosed reserves[1]	21	21
Less deductions from common equity tier 1 capital		
Goodwill and intangible assets, net of associated deferred tax liabilities		(3,276)
Deferred tax assets less deferred tax liabilities relating to temporary differences		(107)
Cash flow hedge reserve		(27)
Expected losses to the extent greater than total eligible allowances for impairment		(274)
Common equity tier 1 capital		10,446
Additional tier 1 capital		
Preference shares[2]	21	300
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN)[3]	15	500
NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN)[3]	15	1,003
NZD 938m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN2)[3]	15	938
Retained earnings of the Bonus Bonds Scheme[4]		59
Less deductions from additional tier 1 capital		
Surplus retained earnings of the Bonus Bonds Scheme[4]		(20)
Additional tier 1 capital		2,780
Total tier 1 capital		13,226
Tier 2 capital		-
Total capital		13,226

1 Includes the cash flow hedging reserve of NZ$27 million less the investment securities revaluation reserve of NZ$6 million as at 30 September 2019.
2 Classified as equity on the balance sheet under NZ GAAP.
3 Classified as a liability on the balance sheet under NZ GAAP.
4 Bonus Bonds Scheme is not consolidated on the balance sheet under NZ GAAP but is classified as AT1 capital for capital adequacy purposes as set out in BS2B.

Capital requirements of the Banking Group

As at 30 September 2019	Total exposures after credit risk mitigation NZ$m	Risk weighted exposure or implied risk weighted exposure[1] NZ$m	Total capital requirement NZ$m
Total credit risk	190,765	70,031	5,602
Operational risk	n/a	9,720	778
Market risk	n/a	4,788	383
Supervisory adjustment	n/a	12,531	1,003
Total	190,765	97,070	7,766

1 The calculation of capital requirements for total credit risk weighted includes a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

REGISTERED BANK DISCLOSURES

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Credit risk subject to the Internal Ratings Based (IRB) approach

IRB credit exposures by exposure class and customer credit rating

As at 30 September 2019	Probability of default %	Total value NZ$m	Exposure at default NZ$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted assets NZ$m	Minimum capital requirement NZ$m
Corporate							
0 - 2	0.06	67,193	5,382	60	30	1,683	135
3 - 4	0.32	41,489	23,774	37	42	10,555	844
5	1.01	13,937	12,254	33	58	7,546	604
6	2.29	4,764	4,431	35	81	3,809	305
7 - 8	15.25	2,406	2,045	38	165	3,580	286
Default	100.00	317	315	44	173	578	46
Total corporate exposures	1.93	130,106	48,201	39	54	27,751	2,220
Sovereign							
0	0.01	24,154	12,115	5	1	188	15
1 - 8	0.01	1,182	1,161	5	1	18	1
Total sovereign exposures	0.01	25,336	13,276	5	1	206	16
Bank							
1	0.03	1,084,608	9,535	55	28	2,833	227
2 - 4	0.12	76,136	1,102	65	38	440	35
5 - 8	3.23	5	5	39	116	6	-
Total bank exposures	0.04	1,160,749	10,642	56	29	3,279	262
Residential mortgages							
0 - 3	0.20	27,223	27,591	12	5	1,573	126
4	0.46	36,733	36,883	19	15	5,884	471
5	0.91	21,321	21,423	23	31	7,074	566
6	1.98	4,245	4,249	26	59	2,667	213
7 - 8	4.80	309	309	27	94	309	25
Default	100.00	338	339	19	15	55	5
Total residential mortgages exposures	0.94	90,169	90,794	18	18	17,562	1,406
Other retail							
0 - 2	0.10	538	541	77	50	284	23
3 - 4	0.26	4,607	4,689	78	55	2,714	217
5	1.06	1,934	1,878	71	74	1,473	118
6	2.25	1,854	1,895	70	89	1,786	143
7 - 8	7.94	1,487	1,525	82	127	2,049	164
Default	100.00	84	84	76	67	59	4
Total other retail exposures	2.64	10,504	10,612	76	74	8,365	669
Total credit risk exposures subject to the IRB approach	1.20	1,416,864	173,525	29	31	57,163	4,573

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

IRB credit exposures include the following undrawn commitments and other off-balance sheet amounts:

As at 30 September 2019	Total value NZ$m	Exposure at default NZ$m
Undrawn commitments and other off-balance sheet amounts excluding market related contracts		
Corporate	12,224	11,561
Sovereign	299	286
Bank	1,444	1,180
Residential mortgages	8,268	8,684
Other retail	5,271	5,294
Market related contracts		
Corporate	82,694	1,991
Sovereign	12,036	179
Bank	1,151,985	3,756
Residential mortgages	-	-
Other retail	-	-

Additional mortgage information

As required by RBNZ, LVRs are calculated as the current exposure secured by a residential mortgage divided by the Banking Group's valuation of the security property at origination of the exposure. Off-balance sheet exposures include undrawn and partially drawn residential mortgage loans as well as commitments to lend. Commitments to lend are formal offers for housing lending which have been accepted by the customer.

As at 30 September 2019	On-balance sheet NZ$m	Off-balance sheet NZ$m	Total NZ$m
LVR range			
Does not exceed 60%	40,753	5,697	46,450
Exceeds 60% and not 70%	18,623	1,317	19,940
Exceeds 70% and not 80%	18,041	931	18,972
Does not exceed 80%	77,417	7,945	85,362
Exceeds 80% and not 90%	3,237	159	3,396
Exceeds 90%	1,247	164	1,411
Total	81,901	8,268	90,169

Specialised lending subject to the slotting approach

As at 30 September 2019	Total exposures after credit risk mitigation NZ$m	Risk weight %	Risk weighted assets NZ$m	Minimum Pillar 1 capital requirement NZ$m
On-balance sheet exposures				
Strong	5,179	70	3,843	307
Good	5,713	90	5,450	436
Satisfactory	285	115	347	28
Weak	152	250	402	32
Default	12	-	-	-

As at 30 September 2019	Exposure at default NZ$m	Average risk weight %	Risk weighted assets NZ$m	Minimum Pillar 1 capital requirement NZ$m
Off-balance sheet exposures				
Undrawn commitments and other off-balance sheet exposures	1,300	93	1,285	103

The supervisory categories of specialised lending above are associated with specific risk-weights. These categories broadly correspond to the following external credit assessments using S&P Global Ratings' rating scale, Strong: BBB- or better, Good: BB+ or BB, Satisfactory: BB- or B+ and Weak: B to C-.

REGISTERED BANK DISCLOSURES

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Credit risk exposures subject to the standardised approach

As at 30 September 2019	Total exposure after credit risk mitigation NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Minimum Pillar 1 capital requirement NZ$m
On-balance sheet exposures				
Cash and gold bullion	192	-	-	-
Sovereign and central banks	1,448	-	-	-
Multilateral development banks and other international organisations	-	-	-	-
Public sector entities	-	-	-	-
Banks	-	-	-	-
Corporate	1,339	9	130	10
Residential mortgages	-	-	-	-
Past due assets	1	150	1	-
Other assets	927	100	983	79

As at 30 September 2019	Total exposure or principal amount NZ$m	Average credit conversion factor %	Credit equivalent amount NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Minimum Pillar 1 capital requirement NZ$m
Off-balance sheet exposures						
Undrawn commitments and other off-balance sheet exposures	579	68	396	97	405	32
Market related contracts						
Foreign exchange contracts	2	n/a	-	-	-	-
Interest rate contracts	261,459	n/a	296	6	17	1
Other - OTC etc	-	n/a	-	-	-	-

Equity exposures

As at 30 September 2019	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Minimum Pillar 1 capital requirement NZ$m
Equity holdings (not deducted from capital) that are publicly traded	-	300	-	-
All other equity holdings (not deducted from capital)	1	400	5	-

Credit risk mitigation

As at 30 September 2019, the Banking Group had NZ$918 million of Corporate exposures covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

Operational risk

As required by its conditions of registration, the Banking Group uses the standardised approach to the calculation of its operational risk capital requirement. As at 30 September 2019, the Banking Group had an implied risk weighted exposure of NZ$9,720 million for operational risk and an operational risk capital requirement of NZ$778 million.

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B. The peak end-of-day market risk exposures are for the six months ended 30 September 2019.

	Implied risk weighted exposure		Aggregate capital charge	
	Period end	Peak	Period end	Peak
As at 30 September 2019	NZ$m	NZ$m	NZ$m	NZ$m
Interest rate risk	4,777	6,543	382	523
Foreign currency risk	10	128	1	10
Equity risk	1	1	-	-
	4,788		383	

Capital for other material risks

The Banking Group has an Internal Capital Adequacy Assessment Process (ICAAP) which complies with the requirements of the Bank's Conditions of Registration. Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier 1 and total capital ratios. The other material risks identified by the Banking Group include pension risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk and software risk. The Banking Group's internal capital allocation for these other material risks is NZ$272 million. (2018: NZ$389 million). Insurance, value in-force and business retention risks are no longer included following the sale of OnePath.

Information about Ultimate Parent Bank and Overseas Banking Group

APRA Basel III capital ratios	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
	2019	2018	2019	2018
Common equity tier 1 capital	11.4%	11.4%	11.4%	11.6%
Tier 1 capital	13.2%	13.4%	13.4%	13.6%
Total capital	15.3%	15.2%	15.7%	15.6%

The Ultimate Parent Bank and the Overseas Banking Group are required to hold minimum capital as determined by APRA, which is at least equal to that specified under the Basel III capital framework.

APRA has authorised the Ultimate Parent Bank and the Overseas Banking Group to use:

- the Advanced Internal Ratings Based (AIRB) methodology for calculation of credit risk weighted assets. There are however small portfolios (mainly retail and local corporates in Asia Pacific) where the Overseas Banking Group applies the standardised approach.
- the AMA for the operational risk weighted asset equivalent.

The Overseas Banking Group exceeded the minimum capital requirements set by APRA as at 30 September 2019 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2019. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 30 September 2019, in accordance with APS 330: *Public Disclosure of Prudential Information*, discloses capital adequacy ratios and other prudential information. This document can be accessed at the website anz.com.

Regulatory liquidity ratios

RBNZ requires banks to hold minimum amounts of liquid assets to help ensure that they are effectively managing their liquidity risks. The mismatch ratio is a measure of a bank's liquid assets, adjusted for expected cash inflows and outflows during a 1-month or 1-week period of stress. It is expressed as a ratio over the bank's total funding. The Banking Group must maintain its 1-month and 1-week mismatch ratios above zero on a daily basis. The 1-month and 1-week mismatch ratios are averaged over the quarter.

RBNZ requires banks to get a minimum amount of funding from stable sources called core funding. The minimum amount of core funding is currently set at 75% of a bank's total loans. The Banking Group must maintain its core funding ratio above 75% on a daily basis. This measure of the core funding ratio is averaged over the quarter.

For the three months ended	30 Sep 19	30 Jun 19
Quarterly average 1-week mismatch ratio	5.5%	4.6%
Quarterly average 1-month mismatch ratio	5.5%	4.2%
Quarterly average core funding ratio	88.3%	89.1%

REGISTERED BANK DISCLOSURES

B5. CONCENTRATION OF CREDIT EXPOSURES TO INDIVIDUAL COUNTERPARTIES

The Banking Group measures its concentration of credit exposures to individual counterparties at the reporting date on the basis of actual exposures. Peak end-of-day aggregate credit exposures are measured on the basis of internal limits that were not materially exceeded between the reporting date for the previous disclosure statement and the reporting date for the Disclosure Statement.

The exposure information in the table below excludes exposures to:

- connected persons (ie other members of the Overseas Banking Group and Directors of the Bank);
- the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent; and
- any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

	As at 30 Sep 19	Peak end of day over 6 months to 30 Sep 19
Exposures to banks		
Total number of exposures to banks that are greater than 10% of CET1 capital	3	3
with a long-term credit rating of A- or A3 or above, or its equivalent	3	3
- 10% to less than 15% of CET1 capital	2	-
- 15% to less than 20% of CET1 capital	1	2
- 20% to less than 25% of CET1 capital	-	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% of CET1	4	4
with a long-term credit rating of A- or A3 or above, or its equivalent	4	4
- 10% to less than 15% of CET1 capital	3	3
- 25% to less than 30% of CET1 capital	1	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

B6. CREDIT EXPOSURES TO CONNECTED PERSONS

	Connected persons		Non-bank connected	
	Amount NZ$m	% of Tier 1 Capital	Amount NZ$m	% of Tier 1 Capital
As at 30 September 2019				
Gross amount, before netting	9,100	68.8%	<$1m	0.0%
Amount netted	6,604	49.9%	-	0.0%
Aggregate credit exposure (on partial bilaterial net basis)	2,496	18.9%	<$1m	0.0%
Peak end-of day aggregate credit exposure over the year ended 30 September 2019				
Gross amount, before netting	11,007	83.2%	<$1m	0.0%
Amount netted	7,459	56.4%	-	0.0%
Aggregate credit exposure (on partial bilaterial net basis)	3,548	26.8%	<$1m	0.0%

Credit exposures to connected persons

The information on credit exposure to connected persons has been derived in accordance with the RBNZ Banking Supervision Handbook document *Connected Exposures Policy* (BS8), is net of individual credit impairment allowances and excludes advances to connected persons of a capital nature.

Peak end-of-day aggregate exposure

Peak end-of-day aggregate credit exposure to connected persons as a ratio to tier 1 capital for the full year accounting period is derived by determining the maximum end-of-day aggregate amount of credit exposure over the accounting period and then dividing that amount by the Banking Group's tier 1 capital as at the reporting date.

Rating contingent limit

The rating-contingent limit that applied to the Banking Group as at 30 September 2019 was 60%. No limit changes have occurred over the year to 30 September 2019. Within the overall rating-contingent limit, there is a sub-limit of 15% of tier 1 capital that applies to the aggregate credit exposure to non-bank connected persons.

Additional requirements for aggregate credit exposure to connected persons

Aggregate credit exposure to connected persons has been calculated on a partial bilateral net basis. The gross amounts and amounts netted off under a bilateral netting agreement are included in the table above. There is a limit of 125% of the Banking Group's tier 1 capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure.

Aggregate amount of contingent exposures arising from risk lay-off arrangements

NZ$456 million of contingent exposures of the Banking Group to connected persons arose from risk lay-off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons) as at 30 September 2019.

Loss allowance for credit-impaired credit exposures to connected persons

There were no loss allowances provided against credit exposures to connected persons as at 30 September 2019.

REGISTERED BANK DISCLOSURES

B7. INSURANCE BUSINESS, SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS

Insurance business

The Banking Group previously conducted insurance business through its subsidiary OnePath. OnePath was sold to Cigna Corporaton on 30 November 2018, and as at 30 September 2019, the Banking Group does not conduct any insurance business. As at 30 September 2018, the Banking Group's aggregate amount of insurance business comprised the total consolidated assets of OnePath of $NZ940 million, which was 0.6% of the total consolidated assets of the Banking Group.

Banking Group's involvement in securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products

a) Banking Group's involvement in the establishment, marketing, or sponsorship of trust, custodial, funds management, and other fiduciary activities

Activity	Details
Custodial	The Banking Group operates two custodians: • ANZ Custodial Services New Zealand Limited, which is the appointed custodian for private banking's (ANZ Private) Discretionary Investment Management Service, Wholesale Investment Services and Trading Service; and • ANZ New Zealand Investments Nominees Limited, which is the appointed custodian in respect of direct holdings of securities by various wholesale customer portfolios managed by ANZ New Zealand Investments Limited (ANZ Investments).
Funds management	The Banking Group provides the following funds management services: • *Managed Investment Schemes (MIS):* The Banking Group's subsidiaries ANZ Investments and ANZ Investment Services (New Zealand) Limited (ANZIS) act as manager for a number of managed investment schemes. ANZ Investments holds a MIS Manager licence, with ANZIS being an authorised body under that licence. ANZ Investments is the issuer and manager of ANZ and OneAnswer-branded KiwiSaver schemes, retail and wholesale schemes. ANZIS is the issuer and manager of the Bonus Bonds Scheme and the ANZ PIE Fund. ANZ National Staff Superannuation Limited, also a subsidiary of the Banking Group, is the trustee and manager of the ANZ National Retirement Scheme, which is a restricted workplace savings scheme. • *Discretionary Investment Management Service (DIMS):* The Bank is a licensed DIMS provider. This service is offered to ANZ Private customers. • *Other investment portfolios:* ANZ Investments also manages investment portfolios for a number of schemes where the scheme manager or trustee has outsourced investment management services to ANZ Investments. These schemes are typically corporate superannuation schemes.
Other fiduciary activities	ANZ Investments, through its subsidiary OneAnswer Nominees Limited, offers the OneAnswer Portfolio Service. The associated administration and custody services are provided by FNZ Limited and FNZ Custodians Limited respectively (together FNZ). FNZ is not a member or related party of the Banking Group.

b) Banking Group's involvement in the origination of securitised assets, and the marketing or servicing of securitisation schemes

The Banking Group originates securitised assets in the form of residential mortgage backed securities held for potential repurchase transactions with RBNZ, and covered bonds. Refer to Note 24 Structured Entities for further details about these programmes. Other than these activities, the Banking Group is not involved in the marketing or servicing of securitisation schemes.

c) Banking Group's involvement in marketing and distribution of insurance products

The Banking Group markets and distributes life insurance, other personal and business insurance products provided by or arranged through a number of insurance partners. None of these insurance partners are affiliated insurance entities or affiliated insurance groups. Our insurance partners are:

- OnePath for life insurance. OnePath was a subsidiary of the Banking Group until 30 November 2018;
- Vero Insurance New Zealand Limited for house, contents, car and boat insurance;
- AWP Services New Zealand Limited, trading as Allianz Partners, for travel insurance. Policies are underwritten by Allianz Australia Insurance Limited (incorporated in Australia) trading as Allianz New Zealand;
- Cigna Life Insurance New Zealand Limited for credit card repayment insurance; and
- Crombie Lockwood (NZ) Limited is our business insurance broker.

Arrangements to ensure no adverse impacts arising from the above activities

Arrangements have been put in place to ensure that difficulties arising from the activities in a), b) and c) above would not impact adversely on the Banking Group. The policies and procedures in place include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management.

B7. INSURANCE BUSINESS, SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS (continued)

Amounts represented by funds management and securitisation activities

	2019 NZ$m	2018 NZ$m
Funds under management:		
KiwiSaver[1]	14,781	12,923
Bonus Bonds Scheme[2]	3,276	3,300
Other managed funds[1]	2,494	2,261
ANZ PIE Fund[2]	2,131	1,656
DIMS[3]	8,062	7,678
Other investment portfolios[4]	3,401	2,847
Total funds under management	34,145	30,665
Funds under custodial arrangements[5]	8,373	7,970
Other funds held or managed subject to fiduciary responsibilities[6]	1,401	1,270
Outstanding securitised assets originated by the Banking Group - carrying amount of covered bonds	4,460	3,929

1 Managed by ANZ Investments.
2 Managed by ANZIS.
3 Managed by the Bank.
4 Comprises portfolios managed by ANZ Investments, and the ANZ National Retirement Scheme managed by ANZ National Staff Superannuation Limited.
5 Amount for 2018 includes NZ$60 million held in custody by ANZ New Zealand Securities Nominees Limited, which was sold in December 2018, which are not included in funds under management. All other amounts are also included in funds under management.
6 Not included in funds under management.

Financial services provided to entities conducting the above activities

Financial services provided by any member of the Banking Group to entities that conduct the activities in a) or b) above are provided on arm's length terms and conditions and at fair value.

Assets purchased from entities conducting the above activities

Over the year ended 30 September 2019, any assets purchased by any member of the Banking Group from entities that conduct the activities in a), b) or c) above have been purchased on arm's length terms and conditions and at fair value.

Funding provided to entities in aggregate and individually

The peak end-of day aggregate amount of funding provided to entities that provide services relating to the Banking Group's involvement in the above activities over the year ended 30 September 2019 was less than NZ$0.1 million (2018: less than NZ$0.1 million) which was 0.0% (2018: 0.0%) of the Banking Group's tier 1 capital and 0.0% (2018: 0.0%) of the total assets of the individual entity.

Method for deriving peak end-of-day amount of funding in aggregate and individually

The peak end-of-day aggregate amount of funding is the maximum end-of-day aggregate amount of funding over the full year accounting period, divided by the Banking Group's tier 1 capital as at the balance date, and the total assets as at the balance date of the individual entity to which the Banking Group has provided funding. Where financial statements for the individual entity are not publicly available, total assets from the publicly available financial statements of the group of which the entity is a member have been used.

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES

Information about risk

The success of the Banking Group's strategy is underpinned by our sound management of the Banking Group's risks. All of the Banking Group's activities involve - to varying degrees - the analysis, evaluation, acceptance and management of risks or combinations of risks.

The Board is responsible for establishing and overseeing the Banking Group's Risk Management Framework. The Board has delegated authority to the Bank's Board Risk Committee (BRC) to develop and monitor compliance with the Banking Group's risk management policies. The Committee reports regularly to the Board on its activities.

The key pillars of the Banking Group's Risk Management Framework include:

- the Risk Appetite Statement (RAS), which clearly and concisely sets out the Board's expectations regarding the degree of risk that the Banking Group is prepared to accept in pursuing its strategic objectives and its business plan; and
- the Risk Management Statement (RMS), which describes the Banking Group's strategy for managing risks and a summary of the key elements of the Risk Management Framework (RMF) that give effect to that strategy. The RMS includes: a description of each material risk; and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how the Banking Group identifies, measures, evaluates, monitors, reports and then either controls or mitigates material risks.

The material risks facing the group per the Banking Group's RMS, and how these risks are managed are summarised below:

Key Material Risks

Each key material risk has an associated RAS, and where applicable, measured by appropriate metric(s) and associated tolerance(s) representing the maximum level of risk appropriate to execute the Banking Group's strategic agenda. Metrics are prepared and reviewed at least monthly. A risk appetite dashboard is prepared and reviewed by senior management monthly, and presented to the BRC at each meeting.

Risk Type	Description	Managing the Risk
Strategic Risk	The risk that the Banking Group's business strategy and strategic objectives may lead to an increase in other key Material Risks - for example: Credit Risk, Market Risk and Operational Risk.	We consider and manage Strategic Risks through our annual strategic planning process, managed by the Executive Committee and approved by the Board. Any increase to our key Material Risks is managed in accordance with the risk management practices specified below.
Capital Adequacy Risk	The risk of loss arising from the Banking Group failing to maintain the level of capital required by prudential regulators and other key stakeholders (shareholders, debt investors, depositors, rating agencies, etc.) to support the Banking Group's consolidated operations and risk appetite.	We pursue an active approach to Capital Management through ongoing review, and Board approval, of the level and composition of our capital base against key policy objectives.
Credit Risk	The risk of financial loss resulting from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in a financial loss. Credit Risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies. Includes: • concentrations of credit risk; • intra-day credit risk; • credit risk to bank counterparties; and • related party credit risk.	Our Credit Risk framework is top down, being defined by credit principles and policies. Credit policies, requirements and procedures cover all aspects of the credit life cycle - for example: transaction structuring, risk grading, initial approval, ongoing management and problem debt management, as well as specialist policy topics. The effectiveness of the Credit Risk framework is assessed through various compliance and monitoring processes. These, together with portfolio selection, define and guide the credit process, organisation and staff.
Market Risk	The risk to the Banking Group's earnings arising from: • changes in any interest rates, foreign exchange rates, credit spreads, volatility, and correlations; or • from fluctuations in bond, commodity or equity prices.	Our risk management and control framework for Market Risk involves us quantifying the magnitude of market risk within the trading and balance sheet portfolios through independent risk measurement. First, we identify the range of possible outcomes, the likely timeframe, and the likelihood of the outcome occurring. Then we allocate an appropriate amount of capital to support these activities. The Banking Group's key tools to measure and manage Market Risk on a daily basis include value at risk, earnings at risk, interest rate sensitivities, market value loss limits and stress testing.

B8. RISK MANAGEMENT POLICIES (continued)

Risk Type	Description	Managing the Risk
Liquidity and Funding Risk	The risk that the Banking Group is unable to meet its payment obligations as they fall due, including: • repaying depositors or maturing wholesale debt; or • the Banking Group having insufficient capacity to fund increases in assets.	Key principles in managing our Liquidity and Funding Risk include: • maintaining our ability to meet liquidity 'survival horizons' under a range of stress scenarios to meet cash flow obligations over a short to medium term horizon; • maintaining a strong structural funding profile; and • maintaining a portfolio of high-quality liquid assets to act as a source of liquidity in times of stress.
Operational Risk	The risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and/or systems, or from external events. This definition includes legal risk, and the risk of reputation loss, or damage arising from inadequate or failed internal processes, people and/or systems; but excludes Strategic Risk.	We operate a three-lines-of-defence model to manage Operational Risk, with each line of defence having defined roles, responsibilities and escalation paths to support effective communication and effective management of our Operational Risk. Also, we have ongoing review mechanisms to ensure our Operational Risk framework continues to meet organisational needs and regulatory requirements.
	Compliance Risk The risk of failure to act in accordance with laws, regulations, industry standards and codes, internal policies and procedures and principles of good governance as applicable to the Banking Group's businesses.	Key features of how we manage Compliance Risk as part of our Operational Risk framework include: • centralised management of key obligations, and emphasis on identifying changes in regulations and the business environment, so as to enable us to proactively assess emerging compliance risks and implement robust reporting and certification processes. • recognition of incident management as a separate element to enhance the Banking Group's ability to identify, manage and report on incidents/breaches in a timely manner. • the Whistleblower Protection Policy allowing employees and contractors to make confidential, anonymous submissions regarding concerns relating to accounting, internal control, compliance, audit and other matters.
	Conduct and Reputation Risk The risk of loss that directly or indirectly impacts earnings, capital adequacy or value, that is caused by: • adverse perceptions of the Banking Group held by any of our customers, the community, shareholders, investors, regulators, or rating agencies; • conduct risk associated with the Banking Group's employees or contractors (or both); or the social or environmental (or both) impacts of our lending decisions.	We manage Conduct and Reputation Risk by maintaining a positive and dynamic culture that: • ensures we act with integrity; and • enables us to build strong and trusted relationships with customers and clients, with colleagues, and with the broader society. We have well established decision-making frameworks and policies to ensure our business decisions are guided by sound social and environmental standards that take into account Conduct and Reputation Risk.

Refer to Note 15 Financial Risk Management for the disclosures required under NZ IFRS 7 *Financial Instruments: Disclosures.*

Other Material Risks

Risks where the maximum level of risk is set as part of the Banking Group's ICAAP. These risks do not require the same degree of active or transactional management as the Key Material Risks and are managed and monitored as part of the Banking Group's business, strategic and capital management process. For more information about the Banking Group's ICAAP refer to the section 'Capital for other material risks' in Note B4.

Pension Risk	The risk of the value of investments in a defined benefit pension fund being insufficient to meet liabilities resulting in additional funds being required to match pension liabilities.
Strategic Equity Risk	The risk of financial loss arising from the unexpected reduction in value of equity investments not held in the trading book.
Fixed Asset Risk	The risk of financial loss arising from the negative revaluation of fixed assets owned and leased, caused by adverse changes in business and/or economic conditions. Residual Value Risk is included in the definition of Fixed Assets, which is the risk that the market value of the underlying assets of operating leases may fall below the anticipated residual value.
Deferred Acquisiton Risk	The risk of loss arising from the failure of the benefits associated with the acquisition of interest earnings assets to arise due to impairment, transfer, or prepayment.
Software Risk	The risk of financial loss arising from the unexpected accelerated write down of capitalised software expenditure due to diminished future economic benefits caused by adverse business or economic conditions.

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES (continued)

Capital adequacy

Refer to Note 22 Capital Management for the disclosures required under NZ IAS 1 *Presentation of financial statements*.

Reviews of the Banking Group's risk management systems

Refer to Note 15 Financial Risk Management for details of the Internal Audit Function's reviews of the Banking Group's RMF. These reviews are not conducted by a party external to the Banking Group or the Ultimate Parent Bank.

Internal Audit Function of the Banking Group

The Banking Group has an Internal Audit Function, refer to Note 15 Financial Risk Management for details.

The nature and scope of the responsibilities of the Audit Committee responsibilities, to which Internal Audit reports, are to assist the Board of Directors by providing oversight and review of:

- the Banking Group's financial reporting principles and policies, controls, systems and procedures;
- the effectiveness of the Banking Group's internal control and risk management framework;
- the work and internal audit standards of Internal Audit which reports directly and solely to the Chair of the Audit Committee.
- the integrity of the Banking Group's financial statements and the independent audit thereof, and the Banking Group's compliance with legal and regulatory requirements in relation thereto;
- any due diligence procedures;
- prudential supervision procedures and other regulatory requirements to the extent relating to financial reporting; and
- any other matters referred to it by the Board.

The Audit Committee is also responsible for:

- the appointment, annual evaluation and oversight of the external auditor;
- annual review of the independence, fitness and propriety, and qualifications of the external auditor;
- compensation of the external auditor; and
- where deemed appropriate, replacement of the external auditor.

In carrying out its responsibilities and duties, the Audit Committee will aim to seek fair customer outcomes and financial market integrity in its deliberations.

Measurement of impaired assets

Refer to Note 12 Allowance for Expected Credit Losses and Note 15 Financial Risk Management for details of the Banking Group's approach to measurement of impaired assets. Further to this, impairment is assessed monthly, with individual allowances for credit impairment also updated monthly and collective allowances for credit impairment updated quarterly.

Credit risk mitigation

Refer to Note 18 Offsetting for the policies and processes for, and extent of, on-balance sheet netting. The same policies and processes apply to off-balance sheet credit related commitments. No off-balance sheet credit related commitments or guarantees meet the criteria for netting.

As an AIRB bank, the Banking Group uses the comprehensive method to measure the mitigating effects of collateral.

The Banking Group assesses the integrity and ability of counterparties to meet their contractual financial obligations for repayment. The Banking Group generally takes collateral security in the form of real property or a security interest in personal property, except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance, in the form of housing loans, is generally secured against real estate while short term revolving consumer credit is generally unsecured.

Additional information about credit risk

Implementation of the advanced internal ratings based approach to credit risk measurement

The Banking Group adheres to the standards of risk grading and risk quantification as set out for IRB banks in the RBNZ document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B).

Under this IRB Framework banks use their own measures for calculating the level of credit risk associated with customers and exposures, by way of the primary components of:

- Probability of Default (PD): An estimate of the level of risk of borrower default graded by way of rating models used both at loan origination and for ongoing monitoring.
- Exposure at Default (EAD): The expected facility exposure at default. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.
- Loss Given Default (LGD): An estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD. For Retail Mortgage exposures the Bank is required to apply the downturn LGDs according to loan to value (LVR) bands as set out in BS2B. For farm lending exposures the Banking Group is required to adopt RBNZ prescribed downturn LVR based LGDs, along with a minimum maturity of 2.5 years and the removal of the firm-size adjustment.

For exposures classified under Specialised Lending, the Banking Group uses slotting tables approved by RBNZ rather than internal estimates.

The exceptions to IRB treatment are three minor portfolios where, due to systems constraints, determining these IRB risk estimates is not currently feasible or appropriate. Risk weights for these exposures are calculated under a separate treatment as set out in the RBNZ document *Capital Adequacy Framework (Standardised Approach)* (BS2A).

B8. RISK MANAGEMENT POLICIES (continued)

Classification of Banking Group exposures according to rating approach

Internal ratings based approach

IRB Asset Class	Borrower Type	Rating Approach
Sovereign	Crown	IRB - Advanced
	RBNZ	IRB - Advanced
	Any other sovereign and its central bank	IRB - Advanced
Bank	Registered banks	IRB - Advanced
Corporate	Corporation, partnerships or proprietorships that do not fit any other asset classification	IRB - Advanced
	Corporate Small to Medium Enterprises (SME) with turnover of less than NZ$50 million	IRB - Advanced
Retail Mortgages	Individuals' borrowings against residential property	IRB - Advanced
Other Retail	Other lending to individuals (including credit cards)	IRB - Advanced
	SME business borrowers	IRB - Advanced
Corporate sub-class - Specialised lending	Project finance	IRB - Slotting
	Income producing real estate	IRB - Slotting

Standardised approach

Exposure Class	Exposure Type	Reason for Standardised Approach	Future Treatment
Corporate	Merchant card prepayment exposures	System constraints	Move to IRB
	Corporate credit cards	System constraints	Move to IRB
Bank	Qualifying Central Counterparty (QCCP)	Required by BS2B	Standardised
Equity		Required by BS2B	Standardised
Other assets	All other assets not falling within any of the above classes	Required by BS2B	Standardised

Controls surrounding credit risk rating systems

The term "Rating Systems" covers all of the methods, processes, controls, data collection and technology that support the assessment of credit risk, the assignment of internal credit risk ratings and the quantification of associated default and loss estimates.

All material aspects of the Rating Systems and risk estimate processes are governed by the BRC. Risk grades are an integral part of reporting to senior management and executives. Management and staff of credit risk functions, in conjunction with the relevant Retail and Wholesale Risk Committees, regularly assess the performance of the rating systems, identify any areas for improvement and monitor progress on previously identified development work needed.

The Banking Group's Rating Systems are governed by a comprehensive framework of controls that operate at the business unit and support centres, and through central audit and validation processes. All policies, model designs, model reviews, methodologies, validations, responsibilities, systems and processes supporting the ratings systems are fully documented.

The Banking Group's Retail and Wholesale ratings functions work closely with the Ultimate Parent Bank's risk ratings functions, are independent of operational lending activities and are responsible for the ratings strategies and ongoing management of credit risk models within New Zealand. The annual review of models used across the Banking Group is a function undertaken by the ANZ Decision Model Validation Unit, which is also independent of credit risk operational functions and is responsible for overseeing the design, implementation and performance of all rating models in the Banking Group.

The target approach to modelling for the Banking Group is to deploy the model most suitable for the environment. At present this involves an approach to modelling that combines models developed in New Zealand and models developed by the Ultimate Parent Bank, tested and validated for use in New Zealand, as appropriate.

DIRECTORS' STATEMENT

As at the date on which this Disclosure Statement is signed, after due enquiry, each Director believes that:

- The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014; and
- The Disclosure Statement is not false or misleading.

Over the year ended 30 September 2019, after due enquiry, each Director believes that, except as noted on pages 74 to 76:

- ANZ Bank New Zealand Limited has complied with all Conditions of Registration that applied during that period;
- Credit exposures to connected persons were not contrary to the interests of the Banking Group; and
- ANZ Bank New Zealand Limited had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated, and has been signed by all Directors of the Bank on, 12 December 2019.

Antony Carter

Shayne Elliott

Alison Gerry

Michelle Jablko

Rt Hon Sir John Key, GNZM AC

Mark Verbiest

Joan Withers

INDEPENDENT AUDITOR'S REPORT

KPMG

TO THE SHAREHOLDER OF ANZ BANK NEW ZEALAND LIMITED

REPORT ON THE BANKING GROUP DISCLOSURE STATEMENT

OPINION

We have audited the accompanying consolidated financial statements and registered bank disclosures of ANZ Bank New Zealand Limited and its subsidiaries (the Banking Group) in section B2, B3, B5, B6, B7 and B8 which comprise:

- the consolidated balance sheet as at 30 September 2019;
- the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended;
- notes, including a summary of significant accounting policies and other explanatory information; and
- the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order).

In our opinion, the accompanying consolidated financial statements on pages 4 to 64:

- give a true and fair view of the Banking Group's financial position as at 30 September 2019 and its financial performance and cash flows for the year ended on that date; and
- comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards).

In our opinion, the registered bank disclosures that are required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order and are included in sections B2, B3, B5, B6, B7 and B8 of the Disclosure Statement:

- have been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration;
- are in accordance with the books and records of the Banking Group in all material respects; and
- fairly state the matters to which they relate in accordance with those schedules.

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the Banking Group, as far as appears from our examination of those records.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISA's (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISA's (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements and registered bank disclosures in section B2, B3, B5, B6, B7 and B8 section of our report.

Our firm has also provided other audit related services to the Banking Group in relation to review of regulatory returns, internal controls reports, prospectus assurance or reviews and agreed upon procedures engagements. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

EMPHASIS OF MATTER - NON-COMPLIANCE WITH CERTAIN CONDITIONS OF REGISTRATION

We draw attention to section B1 of the Disclosure Statement, in which the Banking Group discloses that it has identified non-compliance with aspects of its Conditions of Registration relating to:

- Capital adequacy;
- Regulatory liquidity;
- Exposures to connected persons; and
- Outsourcing.

Further details of the matters relating to capital adequacy and regulatory liquidity are described below in our qualified review conclusion on the registered bank disclosures in section B4 relating to capital adequacy and regulatory liquidity ratios.

Our opinion on the consolidated financial statements and registered bank disclosures in sections B2, B3, B5, B6, B7 and B8 is not modified in respect of these matters.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

ALLOWANCE FOR EXPECTED CREDIT LOSSES

The Key Audit Matter

NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) was adopted by the Banking Group on 1 October 2018. The allowance for expected credit losses under NZ IFRS 9 is a key audit matter due to the significance of the loans and advances balance to the financial statements and the inherent complexity of the Banking Group's Expected Credit Loss (ECL) models used to measure ECL allowances. This new and complex accounting standard requires the Banking Group to recognise ECLs on its loans and advances and off-balance sheet positions. The Banking Group developed new models, which are reliant on data and a number of estimates including impacts of multiple economic scenarios, and other assumptions such as defining a Significant Increase in Credit Risk (SICR). This involves significant judgement and estimates and forward looking information reflecting potential future economic events.

NZ IFRS 9 requires the Banking Group to measure ECLs on a forward-looking basis reflecting a range of future economic conditions, including forward-looking assumptions such as forecast GDP and unemployment levels. Post-model adjustments to the ECL results are also made by the Banking Group to address known ECL model limitations or emerging trends in the loan portfolios. Significant judgement is required in selecting the economic scenarios used and the judgemental overlays that the Banking Group applies to the ECL results.

The criteria selected to identify a SICR, such as a decrease in customer credit rating (CCR), are key areas of judgement within the Banking Group's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.

Separate from the ECL calculation, allowances for individually assessed loans exceeding specific thresholds are individually assessed by the Banking Group. These specific allowances are established based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Banking Group in respect of the loans.

How the matter was addressed in our audit

Our audit procedures for the allowance for ECL and disclosures under NZ IFRS 9 for the year ended 30 September 2019 included assessing the Banking Group's significant accounting policies against the requirements of the accounting standard. KPMG Financial Risk Management specialists were used in ECL audit procedures as a core part of our audit team.

We tested key controls in relation to:

- The Banking Group's ECL model governance and validation processes;
- The Banking Group's assessment and approval of the forward looking macroeconomic assumptions and scenario weightings through challenge applied by the Banking Group's internal governance processes;
- Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;
- Counterparty risk grading for non-retail loans (larger customer exposures are monitored individually). We tested the approval of new lending facilities against the Banking Group's lending policies, and controls over the monitoring of counterparty credit quality; and
- The Banking Group's oversight of the retail loan portfolios, with a focus on controls over delinquency monitoring.

We also tested relevant General Information Technology Controls (GITCs) over the Key IT applications used by the Banking Group in measuring ECL allowances, as detailed in the IT systems and Controls key audit matter below.

In addition to controls testing, our procedures included:

- Performing credit assessments of a sample of non-retail loans controlled by the Banking Group's specialist workout and recovery team, assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Banking Group as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions). We challenged the Banking Group's risk grading of the loan, assessment of loan recoverability, valuation of security and the impact on the credit allowance. To do this, we reviewed the information on the Banking Group's loan file, understood the facts and circumstances of the case with the relationship manager, and performed our own assessment of recoverability. Exercising our judgement, our procedures included using our understanding of relevant industries and the macroeconomic environment, and comparing data and assumptions used by the Banking Group in recoverability assessments to externally sourced evidence, such as commodity prices and external property sale information;
- Obtaining an understanding of the Banking Group's processes to determine ECL allowances, evaluating the Banking Group's ECL model methodologies against established market practices and criteria in the accounting standards;
- Assessing the accuracy of the Banking Group's ECL model predictions by re-performing, for a sample of loans, the calculation of the ECL allowance and comparing this to the amount recorded by the Banking Group;
- Utilising KPMG Economic specialists to challenge the Banking Group's forward-looking macroeconomic assumptions and scenarios incorporated in the Banking Group's ECL models. We compared the Banking Group's forecast GDP and unemployment rates to relevant publicly available macro-economic information, and considered other known variables and information obtained through our other audit procedures to identify contradictory indicators;
- Testing the implementation of the Banking Group's SICR methodology by re-performing the staging calculation for a sample of loans and comparing our expectation to actual staging applied on an individual account level, taking into consideration movements in CCR; and
- Assessing the accuracy of the data used in the ECL models by confirming a sample of data fields such as account balance and CCR to relevant source systems.

We also challenged key assumptions in the components of the Banking Group's post-model adjustments to the ECL allowance balance. This included:

- Evaluating underlying data used in concentration risk and economic cycle allowances by comparing underlying portfolio characteristics to loss experience, current market conditions and specific risks inherent in the Banking Group's loan portfolios;
- Assessing the requirement for other additional allowances the Banking Group's ECL model and data deficiencies identified by the Banking Group's ECL model validation processes; and
- Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the portfolios against the Banking Group's assessment.

VALUATION OF FINANCIAL INSTRUMENTS

The Key Audit Matter

Financial instruments held at fair value on the Banking Group's balance sheet include investment securities, trading securities, derivative assets and liabilities, certain deposits and other borrowings, and other assets and liabilities designated as measured at fair value through profit or loss. The instruments are mainly risk management products sold to customers and used by the Banking Group to manage its own interest rate and foreign exchange risk.

The valuation of financial instruments held at fair value is considered a key audit matter due to:

- Their significant fair value (17% of assets and 9% of liabilities of the Banking Group);
- The significant volume and range of products transacted, which increases the risk of errors that could lead to inaccurate valuation;
- The significant level of judgement by the Banking Group, increasing the risk of error, and adding complexity to our audit. The level of judgement increases in the small number of instances where internal models, as opposed to quoted market prices, are used to determine fair value of an instrument; and
- The valuation of certain derivatives held by the Banking Group is sensitive to inputs including credit risk, funding rates, probabilities of default and loss given default. Both funding and credit risk are incorporated within the valuation of certain derivative instruments.

How the matter was addressed in our audit

Our audit procedures for the valuation of financial instruments held at fair value included:

- Testing access rights and change management controls for key valuation systems;
- Testing interface controls, notably the completeness and accuracy of data transfers between transaction processing systems, key systems used to generate valuations and any related valuation adjustments, and the Banking Group's market risk management and finance systems to identify inconsistencies in valuation processes across products;
- Testing the governance and approval controls such as management review and approval of the valuation models and approval of new products against policies and procedures;
- Testing the front office management review and approval of the daily financial instrument trading profit and loss reconciliations prepared by the Banking Group's independent markets and treasury control;
- Testing management's review and approval of valuation model construction and validation; and
- Testing the Banking Group's data validation controls.

We tested the valuation of financial instruments with both observable and unobservable inputs. Our specific testing involved valuation specialists and included:

- Evaluating the appropriateness of the Banking Group's valuation methodology for derivative financial instruments;
- Re-performing the valuation of 'level 1' and 'level 2' investment securities and trading securities, which are primarily government, semi-government and corporate debt securities, by comparing the observable inputs, including quoted prices, to independently sourced market data; and
- Using independent models to recalculate the valuation of a sample of derivative assets and liabilities where the fair value was determined using observable inputs. This included comparing a sample of observable inputs used in the Banking Group's derivative valuations to independently-sourced market data, such as interest rates, foreign exchange rates and volatilities.

IT SYSTEMS AND CONTROLS

The Key Audit Matter

As a major New Zealand bank, the Banking Group's businesses utilise a large number of complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of a financial report which provides a true and fair view of the Banking Group's financial position and performance. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Banking Group's IT controls.

How the matter was addressed in our audit

We tested the control environment for key IT applications used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which support the effective operation of technology-enabled business processes. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

Our audit procedures included:

- Assessing the governance and higher-level controls in place across the IT Environment, including the approach to the Banking Group policy design, review and awareness;
- Testing the design and operating effectiveness of controls across the User Access Management Lifecycle, including how users are on-boarded, reviewed, and removed on a timely basis from critical IT applications and supporting infrastructure. We also looked at how privileged roles and functions are managed across each IT Application and the supporting infrastructure;

INDEPENDENT AUDITOR'S REPORT

- Testing the design and operating effectiveness of controls in place over change management, including how changes are initiated, documented, approved, tested and authorised prior to migration into the production environment of critical IT Applications. We also assessed the appropriateness of users with access to make changes to IT applications across the Banking Group;
- Testing the design and operating effectiveness of controls used by the Banking Group's technology teams to schedule system jobs and monitor system integrity;
- Testing the design and operating effectiveness of controls in place to support Program Development, including the implementation of revised guidelines per the new ANZ Delivery Framework; and
- Testing the design and operating effectiveness of automated business process controls including those that enforce segregation of duties between conflicting roles within IT applications, configurations in place to perform calculations, mappings, and flagging of financial transactions, automated reconciliation controls, both between systems, and intra-system and data integrity of critical system reporting used for sampling, data analysis and financial reporting across the audit.

PROVISION FOR CUSTOMER REMEDIATION

The Key Audit Matter

The Banking Group has assessed the need to recognise provisions in relation to certain customer remediation activities arising from both internal and external investigations, and reviews. This includes provisions for expected refunds to customers and other counterparties, remediation project costs and related customer, counterparty and regulatory claims, penalties, and litigation outcomes.

The provision for customer remediation is a key audit matter due to the number of investigations, the quantum of amounts involved and the judgements required in assessing the Banking Group's determination of:

- The existence of a present legal or constructive obligation arising from a past event using the conditions of the event against the criteria in the accounting standards;
- Reliable estimates of the amounts that may be paid arising from investigations, including estimates of related costs; and
- The potential for legal proceedings, further investigations, and reviews from its regulators leading to a wider range of estimation outcomes for us to consider.

How the matter was addressed in our audit

Our audit procedures for customer remediation provisions included:

- Obtaining an understanding of the Banking Group's processes for identifying and assessing the potential impact of the investigations into customer remediation payments, related project costs and legal proceedings associated with compliance matters, investigations and reviews from its regulators;
- Enquiring with the Banking Group regarding ongoing legal, and regulatory matters, and investigation into other remediation activities;
- Enquiring with external legal counsel;
- Reading the minutes and other relevant documentation of the Banking Group's Board of Directors and various management committees, and attending the Banking Group's Audit and Risk Committee meetings;
- Inspecting correspondence with relevant regulatory bodies;
- For a sample of individual matters, assessing the basis for recognition and measurement of a provision and associated costs against the requirements of the accounting standards. We did this by understanding and challenging the provisioning methodologies and underlying assumptions;
- Testing completeness by evaluating all current customer remediation matters identified by the Banking Group and checking these exposures against the criteria for a provision or a contingency in the accounting standards; and
- Evaluating the related disclosures against the requirements of NZ IFRS.

COMPLETENESS AND ACCURACY OF RELATED PARTY DISCLOSURES

The Key Audit Matter

The Banking Group has significantly increased its focus on related party disclosures. We also reassessed the risk of completeness and accuracy of related party disclosures. We consider the increased risk to primarily arise from transactions with key management personnel and their related parties.

How the matter was addressed in our audit

Our audit procedures for related party disclosures included:

- Challenging the Banking Group's definition of related parties and related party transactions;
- Testing the key control over the Banking Group's process for identifying key management personnel, their related parties and their transactions and balances;
- Ensuring intra-group related party amounts are matched against Overseas Banking Group counterparties;
- Testing the completeness of the related parties identified by searching the Directors' Interests Register and public records to identify companies controlled by key management personnel or their close family members;
- Agreeing a sample of key management personnel compensation, transactions and balances identified by the Banking Group to approval documents and source systems;
- Sample testing the Banking Group's core bank system to identify undisclosed balances with key management personnel and their related parties;
- Evaluating the Banking Group's assertion that key management personnel transactions are on normal commercial terms by testing a sample of transactions and comparing the terms offered to those offered to other employees or customers; and
- Obtaining evidence over the Banking Group's assertion that transactions with the Overseas Banking Group are conducted at arm's length and on normal commercial terms basis.

OTHER INFORMATION

The Directors, on behalf of the Banking Group, are responsible for the general disclosures required to be included in the Banking Group's Disclosure Statement in accordance with Schedule 2 of the Order (section B1).

Our opinion on the consolidated financial statements does not cover section B1 (referred to as 'other information') and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B1, B2, B3, B5, B6, B7 AND B8

The Directors, on behalf of the Banking Group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with Clause 24 of the Order, NZ IFRS and International Financial Reporting Standards;
- the preparation and fair presentation of supplementary information, in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal control to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B2, B3, B5, B6, B7 AND B8

Our objective is:

- to obtain reasonable assurance about whether the Disclosure Statement, including the consolidated financial statements prepared in accordance with Clause 24 of the Order, and registered bank disclosures in section B2, B3, B5, B6, B7 and B8, prepared in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's (NZ) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

QUALIFIED REVIEW CONCLUSION ON THE REGISTERED BANK DISCLOSURES IN SECTION B4 RELATING TO CAPITAL ADEQUACY AND REGULATORY LIQUIDITY RATIOS (SECTION B4)

We have reviewed the registered bank disclosures, as disclosed in section B4 of the Disclosure Statement for the year ended 30 September 2019, which are required to be disclosed in accordance with Schedule 11 of the Order.

Based on our review, with the exception of the matter described below, nothing has come to our attention that causes us to believe that the information relating to Capital Adequacy and Regulatory Liquidity Ratios, disclosed in section B4 of the Disclosure Statement, is not, in all material respects disclosed in accordance with Schedule 11 of the Order.

BASIS FOR QUALIFIED CONCLUSION ON THE REGISTERED BANK DISCLOSURES IN SECTION B4

A review of the registered bank disclosures in section B4 in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410) is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our responsibilities under that standard are further described in the 'Auditor's Responsibilities for the review of the registered bank disclosures in section B4' section of our report.

As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

INDEPENDENT AUDITOR'S REPORT

As described in section B1, the Banking Group has identified that it was not compliant with Condition of Registration 1B in relation to the operation of versions of the following rating models and processes, which were not approved by the Reserve Bank of New Zealand (in some cases since 2008):

- Commercial property Model Suite (single investment, multi-investment, Hotel Investment, Special Purpose Asset investment, Single Residential Development, Englobo Land Pre Development);
- Non-Bank Financial Institutions Model Suite (Life Insurance, Non-Life Insurance, Insurance Holding Company, Finance Companies, Financial Services Companies, Real Money Funds);
- Project and Structured Finance; and
- Bank, Country and Sovereigns.

The Banking Group has also identified a small number of calculation errors or other matters of non-compliance, which, individually and in aggregate, have no material impact on the reported ratios.

In these respects, the Capital Adequacy Ratios disclosed in section B4 of the Disclosure Statement have not been disclosed in accordance with Schedule 11 of the Order.

We have estimated the impact of that non-compliance based on a recalculation of the relevant components of those ratios under the Reserve Bank of New Zealand's Standardised Approach for unapproved models, or against the previously approved model where a model had subsequently been modified without approval. In aggregate, our recalculation indicates a 0.17% reduction in the reported CET1 ratio, and a 0.21% reduction in the Tier 1 Capital, Total Capital and Buffer ratios. 59% of the impact comes from our recalculation of the Bank, Country and Sovereigns exposures using a Standardised Approach. The Banking Group would remain 5.41% above its regulatory minimum Total Capital ratio if those adjustments were made.

The above matters do not affect the Regulatory Liquidity information, which is also disclosed in section B4.

DIRECTORS' RESPONSIBILITIES FOR THE REGISTERED BANK DISCLOSURES IN SECTION B4

The Directors, on behalf of the Banking Group, are responsible for the preparation of the registered bank disclosures in section B4 of the Disclosure Statement in accordance with Schedule 11 of the Order.

AUDITOR'S RESPONSIBILITIES FOR THE REVIEW OF THE REGISTERED BANK DISCLOSURES IN SECTION B4

Our responsibility is to express a conclusion on the registered bank disclosures in section B4 based on our review. We conducted our review in accordance with NZ SRE 2410 issued by the New Zealand External Reporting Board. As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and plan and perform the review to obtain limited assurance about whether the registered bank disclosures in section B4 is, in all material respects, disclosed in accordance with Schedule 11 of the Order.

A review of the registered bank disclosures in section B4 in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISA's (NZ). Accordingly we do not express an audit opinion on the registered bank disclosures in section B4.

USE OF THIS INDEPENDENT AUDITOR'S REPORT

This independent auditor's report is made solely to the shareholder. Our work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder for our work, this independent auditor's report, or any of the opinions or conclusions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Matt Prichard.

For and on behalf of

KPMG

KPMG
Auckland

12 December 2019

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ANZ BANK NEW ZEALAND LIMITED
ANNUAL REPORT AND REGISTERED BANK DISCLOSURE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2018
NUMBER 90 | ISSUED NOVEMBER 2018

CONTENTS

ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2018

Pursuant to section 211(3) of the Companies Act 1993, the shareholder of the Bank has agreed that the Annual Report of the Banking Group need not comply with any of the paragraphs (a), and (e) to (j) of subsection (1) and subsection (2) of section 211.

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year ended 30 September 2018 and the audit report on those financial statements.

For and on behalf of the Board of Directors:

Rt Hon Sir John Key, GNZM AC
Chair
15 November 2018

David Hisco
Executive Director
15 November 2018

GLOSSARY OF TERMS

In this Registered Bank Disclosure Statement (Disclosure Statement) unless the context otherwise requires:

Bank means ANZ Bank New Zealand Limited.

Banking Group, We or Our means the Bank and all its controlled entities.

Immediate Parent Company means ANZ Holdings (New Zealand) Limited.

Ultimate Parent Bank means Australia and New Zealand Banking Group Limited.

Overseas Banking Group means the worldwide operations of Australia and New Zealand Banking Group Limited including its controlled entities.

New Zealand business means all business, operations, or undertakings conducted in or from New Zealand identified and treated as if it were conducted by a company formed and registered in New Zealand.

NZ Branch means the New Zealand business of the Ultimate Parent Bank.

ANZ New Zealand means the New Zealand business of the Overseas Banking Group.

OnePath means OnePath Life (NZ) Limited.

UDC means UDC Finance Limited.

Registered Office is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, New Zealand, which is also the Banking Group's address for service.

RBNZ means the Reserve Bank of New Zealand.

APRA means the Australian Prudential Regulation Authority.

the Order means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

Any term or expression which is defined in, or in the manner prescribed by, the Order shall have the meaning given in or prescribed by the Order.

FINANCIAL STATEMENTS

In 2018, we have redesigned our Financial Statements to better communicate our performance to stakeholders by reducing complexity and simplifying our financial note disclosures.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

INCOME STATEMENT

For the year ended 30 September	Note	2018 NZ$m	2017 NZ$m
Interest income		6,390	6,198
Interest expense		(3,240)	(3,161)
Net interest income	2	3,150	3,037
Other operating income	2	716	604
Net funds management and insurance income	2	405	329
Share of associates' profit	2	5	5
Operating income		4,276	3,975
Operating expenses	3	(1,517)	(1,468)
Profit before credit impairment and income tax		2,759	2,507
Credit impairment charge	12	(55)	(62)
Profit before income tax		2,704	2,445
Income tax expense	4	(751)	(680)
Profit for the year		1,953	1,765

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2018 NZ$m	2017 NZ$m
Profit for the year	1,953	1,765
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	1	15
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised losses recognised directly in equity	(27)	(32)
Realised losses transferred to the income statement	5	12
Income tax attributable to the above items	7	6
Other comprehensive income after tax	(14)	1
Total comprehensive income for the year	1,939	1,766

The notes appearing on pages 8 to 56 form an integral part of these financial statements

BALANCE SHEET

As at 30 September	Note	2018 NZ$m	2017 NZ$m
Assets			
Cash and cash equivalents	7	2,200	2,338
Settlement balances owed to the Banking Group		656	536
Collateral paid		1,919	1,415
Trading securities	8	8,024	7,663
Derivative financial instruments	9	8,086	9,878
Available-for-sale assets	10	6,502	6,360
Net loans and advances	11	126,466	117,627
Assets held for sale	25	897	3,065
Life insurance contract assets		-	636
Investments in associates		6	7
Goodwill and other intangible assets	19	3,289	3,275
Investments backing insurance contract liabilities		-	123
Premises and equipment		325	367
Other assets		642	683
Total assets		159,012	153,973
Liabilities			
Settlement balances owed by the Banking Group		2,161	1,840
Collateral received		845	613
Deposits and other borrowings	13	108,008	101,657
Derivative financial instruments	9	8,095	9,826
Current tax liabilities		161	39
Deferred tax liabilities		21	187
Liabilities held for sale	25	334	1,088
Payables and other liabilities		947	1,151
Employee entitlements		120	119
Other provisions		76	66
Debt issuances	14	25,135	24,606
Total liabilities		145,903	141,192
Net assets		13,109	12,781
Equity			
Share capital	20	11,888	8,888
Reserves		33	48
Retained earnings		1,188	3,845
Total equity		13,109	12,781

For and on behalf of the Board of Directors:

Rt Hon Sir John Key, GNZM AC
Chair
15 November 2018

David Hisco
Executive Director
15 November 2018

The notes appearing on pages 8 to 56 form an integral part of these financial statements

FINANCIAL STATEMENTS

CASH FLOW STATEMENT

For the year ended 30 September	2018 NZ$m	2017 NZ$m
Profit after income tax	1,953	1,765
Adjustments to reconcile to net cash provided by/(used in) operating activities:		
Depreciation and amortisation	88	80
Loss on sale of premises and equipment	4	2
Impairment of goodwill	-	3
Net derivatives/foreign exchange adjustment	1,150	(662)
Other non-cash movements	(22)	88
Net (increase)/decrease in operating assets:		
Collateral paid	(504)	895
Trading securities	(361)	4,316
Net loans and advances	(5,927)	(5,916)
Other assets	(266)	(27)
Net increase in operating liabilities:		
Deposits and other borrowings	5,312	3,630
Settlement balances owed by the Banking Group	390	4
Collateral received	232	84
Other liabilities	48	120
Total adjustments	144	2,617
Net cash flows provided by operating activities[1]	2,097	4,382
Cash flows from investing activities		
Available-for-sale assets:[2]		
Purchases	(4,368)	(10,803)
Proceeds from sale or maturity	4,246	7,266
Other assets	3	(49)
Net cash flows used in investing activities	(119)	(3,586)
Cash flows from financing activities		
Debt issuances[3]		
Issue proceeds	3,385	4,922
Redemptions	(3,991)	(3,899)
Proceeds from issue of ordinary shares	3,000	-
Dividends paid	(4,611)	(1,695)
Net cash flows used in financing activities	(2,217)	(672)
Net increase / (decrease) in cash and cash equivalents	(239)	124
Cash and cash equivalents at beginning of year	2,439	2,315
Cash and cash equivalents at end of year	2,200	2,439

1 Net cash provided by operating activities includes income taxes paid of NZ$619 million (2017: NZ$605 million).

2 We have reassessed the composition of operating, investing and financing cash flows. Cash flows from available-for-sale assets were previously included in operating activities, and comparative amounts have been reclassified.

3 Movement in debt issuances (Note 14) also includes an NZ$1,365 million increase (2017: NZ$510 million increase) from the effect of foreign exchange rates, a NZ$246 million decrease (2017: NZ$247 million decrease) from changes in fair value hedging instruments and a NZ$16 million increase (2017: NZ$24 million increase) of other changes.

The notes appearing on pages 8 to 56 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital NZ$m	Available-for-sale revaluation reserve NZ$m	Cash flow hedging reserve NZ$m	Retained earnings NZ$m	Total equity NZ$m
As at 1 October 2016		8,888	-	62	3,760	12,710
Profit or loss		-	-	-	1,765	1,765
Unrealised gains / (losses) recognised directly in equity		-	7	(39)	-	(32)
Realised losses transferred to the income statement		-	-	12	-	12
Actuarial gain on defined benefit schemes		-	-	-	21	21
Income tax credit / (expense) on items recognised directly in equity		-	(2)	8	(6)	-
Total comprehensive income for the year		-	5	(19)	1,780	1,766
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary dividends paid	5	-	-	-	(1,684)	(1,684)
Preference dividends paid	20	-	-	-	(11)	(11)
Transactions with Immediate Parent Company in its capacity as owner		-	-	-	(1,695)	(1,695)
As at 30 September 2017		8,888	5	43	3,845	12,781
Profit or loss		-	-	-	1,953	1,953
Unrealised gains / (losses) recognised directly in equity		-	8	(35)	-	(27)
Realised losses transferred to the income statement		-	-	5	-	5
Actuarial gain on defined benefit schemes		-	-	-	2	2
Income tax credit / (expense) on items recognised directly in equity		-	(2)	9	(1)	6
Total comprehensive income for the year		-	6	(21)	1,954	1,939
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary shares issued	20	3,000	-	-	-	3,000
Ordinary dividends paid	5	-	-	-	(4,600)	(4,600)
Preference dividends paid	20	-	-	-	(11)	(11)
Transactions with Immediate Parent Company in its capacity as owner		3,000	-	-	(4,611)	(1,611)
As at 30 September 2018		11,888	11	22	1,188	13,109

The notes appearing on pages 8 to 56 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS

These are the financial statements for ANZ Bank New Zealand Limited (the Bank) and its controlled entities (together, the 'Banking Group') for the year ended 30 September 2018. The Bank is incorporated and domiciled in New Zealand. The address of the Bank's registered office and its principal place of business is ANZ Centre, 23-29 Albert Street, Auckland, New Zealand.

On 15 November 2018, the Directors resolved to authorise the issue of these financial statements.

In 2018, we reviewed the content and structure of the financial statements with the aim of increasing their relevance to stakeholders. This review has resulted in a number of changes to the financial statements from previous years, including:

- moving disclosures required by the Order to a separate 'Registered Bank Disclosures' section of the Disclosure Statement;
- information about the Banking Group's recognition and measurement policies and key judgements and estimates has been relocated and is now disclosed within the relevant notes to the financial statements;
- removing immaterial disclosures; and
- aggregating prior year numbers in certain disclosures.

Information in the financial statements is included only to the extent we consider it material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- the dollar amount is significant in size (quantitative factor);
- the dollar amount is significant by nature (qualitative factor);
- the user cannot understand the Banking Group's results without the specific disclosure (qualitative factor);
- the information is critical to a user's understanding of the impact of significant changes in the Banking Group's business during the period – for example: business acquisitions or disposals (qualitative factor);
- the information relates to an aspect of the Banking Group's operations that is important to its future performance (qualitative factor); and
- the information is required under legislative requirements of the Financial Markets Conduct Act 2013 or by the Banking Group's principal regulator, RBNZ.

This section of the financial statements:

- outlines the basis upon which the Banking Group's financial statements have been prepared; and
- discusses any new accounting standards or regulations that directly impact financial statement disclosure requirements.

BASIS OF PREPARATION

These financial statements are general purpose (Tier 1) financial statements prepared by a 'for profit' entity, in accordance with the requirements of the Financial Markets Conduct Act 2013. These financial statements comply with:

- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 2013;
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities; and
- International Financial Reporting Standards (IFRS).

We present the financial statements of the Banking Group in New Zealand dollars, which is the Banking Group's functional and presentation currency. We have rounded values to the nearest million dollars (NZ$m), unless otherwise stated.

BASIS OF MEASUREMENT

We have prepared the financial information in accordance with the historical cost basis - except the following assets and liabilities which we have stated at their fair value:

- derivative financial instruments;
- available-for-sale financial assets;
- financial instruments held for trading; and
- financial instruments designated at fair value through profit and loss.

BASIS OF CONSOLIDATION

The consolidated financial statements of the Banking Group comprise the financial statements of the Bank and all its subsidiaries. An entity, including a structured entity, is considered a subsidiary of the group when we determine that the Bank has control over the entity. Control exists when the Banking Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. We assess power by examining existing rights that give the Banking Group the current ability to direct the relevant activities of the entity. We have eliminated, on consolidation, the effect of all transactions between entities in the Banking Group.

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the relevant functional currency at the exchange rate prevailing at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the relevant spot rate. Any foreign currency translation gains or losses that arise are included in profit or loss in the period they arise.

We measure translation differences on non-monetary items at fair value through profit or loss and report them as part of the fair value gain or loss on these items. We include any translation differences on non-monetary items classified as available-for-sale financial assets in the available-for-sale revaluation reserve in equity.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

KEY JUDGEMENTS AND ESTIMATES

In the process of applying the Banking Group's accounting policies, management has made a number of judgements and applied estimates and assumptions about future events. Further information on the key judgements and estimates that we consider material to the financial statements are contained within the notes to the financial statements.

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2018, and have not been applied by the Banking Group in preparing these financial statements.

The Banking Group has identified three standards where this applies to the Banking Group and further details are set out below.

***NZ IFRS 9 Financial Instruments* (NZ IFRS 9)**
NZ IFRS 9 is effective for the Banking Group from 1 October 2018. NZ IFRS 9 stipulates new requirements for the impairment of financial assets, classification and measurement of financial assets and financial liabilities and general hedge accounting. Details of the key requirements and estimated impacts on the Banking Group are outlined below.

Impairment
NZ IFRS 9 replaces the incurred loss impairment model under NZ IAS 39: *Financial Instruments: Recognition and Measurement* (NZ IAS 39) with an expected credit loss (ECL) model incorporating forward looking information. The ECL model will be applied to all financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, certain loan commitments and financial guarantees. Under the ECL model, the following three-stage approach is applied to measuring ECL based on credit migration between the stages since origination:

- Stage 1: At the origination of a financial asset, a provision equivalent to 12 months ECL is recognised.
- Stage 2: Where there has been a significant increase in credit risk since origination, a provision equivalent to lifetime ECL is recognised.
- Stage 3: Similar to the current NZ IAS 39 requirements for individual impairment provisions, lifetime ECL is recognised for loans where there is objective evidence of impairment.

Expected credit losses are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Classification and measurement
There are three measurement classifications under NZ IFRS 9: Amortised cost, Fair Value through Profit or Loss and Fair Value through Other Comprehensive Income. Financial assets are classified into these measurement classifications taking into account the business model within which they are managed, and their contractual cash flow characteristics.

The classification and measurement requirements for financial liabilities under NZ IFRS 9 are largely consistent with NZ IAS 39 with the exception that for financial liabilities designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income. This part of the standard was early adopted by the Banking Group on 1 October 2013.

General hedge accounting
NZ IFRS 9 introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging financial and non-financial risks.

NZ IFRS 9 provides the Banking Group with an accounting policy choice to continue to apply the NZ IAS 39 hedge accounting requirements until the International Accounting Standards Board's ongoing project on macro hedge accounting is completed. The Banking Group's current expectation is that it will continue to apply the hedge accounting requirements of NZ IAS 39.

Transition to NZ IFRS 9
Other than as noted above under classification and measurement of financial liabilities, NZ IFRS 9 has a date of initial application for the Banking Group of 1 October 2018. The classification and measurement, and impairment requirements, will be applied retrospectively by adjusting opening retained earnings at 1 October 2018. The Banking Group does not intend to restate comparatives.

Impact
Impairment
Based on the portfolio of in-scope financial assets held as at 30 September 2018, economic conditions prevailing at that time and management's judgements and estimates, the application of NZ IFRS 9 as at 1 October 2018 has resulted in higher aggregate impairment provisions of approximately NZ$72 million, with an associated decrease in deferred tax liabilities of approximately NZ$20 million. The net impact on total equity is a reduction of approximately NZ$52 million. These estimates remain subject to change until the Banking Group finalises its financial statements for the year ending 30 September 2019.

Classification and measurement of financial assets
There have been no changes in classification and measurement as a result of the application of the business model and contractual cash flow characteristics tests.

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

NZ IFRS 15 Revenue from Contracts with Customers (NZ IFRS 15)
NZ IFRS 15 is effective for the Banking Group from 1 October 2018 and replaces existing guidance on the recognition of revenue from contracts with customers. The standard requires identification of distinct performance obligations within a contract, and allocation of the transaction price of the contract to those performance obligations. Revenue is then recognised as each performance obligation is satisfied. The standard also provides guidance on whether an entity is acting as a principal or an agent which impacts the presentation of revenue on a gross or net basis.

The Banking Group has assessed all revenue streams existing at the date of transition to the new standard and determined that the impact of NZIFRS 15 is immaterial given the majority of the Banking Group revenues are outside the scope of the standard. The Banking Group will adopt IFRS 15 retrospectively including restatement of prior period comparatives.

NZ IFRS 16 Leases (NZ IFRS 16)
The final version of NZ IFRS 16 was issued in February 2016 and is not effective for the Banking Group until 1 October 2019. NZ IFRS 16 requires a lessee to recognise its right to use the underlying leased asset, as a right-of-use asset; and its obligation to make lease payments as a lease liability. NZ IFRS 16 substantially carries forward the lessor accounting requirements in NZ IAS 17 *Leases*.

The Banking Group is in the process of assessing the impact of the application of NZ IFRS 16 and is not yet able to reasonably estimate the impact on its financial statements.

2. OPERATING INCOME

	2018 NZ$m	2017 NZ$m
Net Interest income		
Interest income by type of financial asset		
Financial assets at amortised cost	5,986	5,736
Trading securities	240	351
Available-for-sale assets	159	106
Financial assets at fair value through profit or loss	5	5
Interest income	6,390	6,198
Interest expense by type of financial liability		
Financial liabilities at amortised cost	(3,168)	(3,023)
Financial liabilities designated at fair value through profit or loss	(72)	(138)
Interest expense	(3,240)	(3,161)
Net interest income	3,150	3,037
Other operating income		
(i) Fee and commission income		
Lending and credit facility fees	32	35
Non-lending fees and commissions	725	702
Fee and commission income	757	737
Fee and commission expense	(363)	(328)
Net fee and commission income	394	409
(ii) Other income		
Net foreign exchange earnings and other financial instruments income	237	129
Derivative valuation adjustments	13	33
Loss on sale of mortgages to NZ Branch	(1)	(1)
Gain on UDC terminated transaction	20	-
Insurance proceeds	20	-
Other	33	34
Other income	322	195
Other operating income	716	604
Net funds management and insurance income		
Net funds management income	217	199
Net insurance income	188	130
Net funds management and insurance income	405	329
Share of associates' profit	5	5
Operating income	4,276	3,975

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest Income and Expense

We recognise interest income and expense for all financial instruments, including those classified as held for trading, available-for-sale-assets or designated at fair value, in profit or loss using the effective interest rate method. This method uses the effective interest rate of a financial asset or financial liability to calculate amortised cost. The effective interest rate is the rate that discounts the stream of estimated future cash receipts or payments over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. For assets subject to prepayment, we determine their expected life on the basis of historical behaviour of the particular asset portfolio - taking into account contractual obligations and prepayment experience.

OTHER OPERATING INCOME

Fee and Commission Income

We recognise fees or commissions:

- that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) when the significant act has been completed; and
- charged for providing ongoing services (for example, maintaining and administering existing facilities) as income over the period the service is provided.

Net Foreign Exchange Earnings and Other Financial Instruments Income

We recognise the following as net foreign exchange earnings and other financial instruments income:

- exchange rate differences arising on the settlement of monetary items and translation differences on monetary items translated at rates different to those at which they were initially recognised;
- fair value movements (excluding realised and accrued interest) on derivatives not designated as accounting hedges that we use to manage interest rate and foreign exchange risk on funding instruments;
- the ineffective portions of fair value hedges and cash flow hedges;
- fair value movements on financial assets and financial liabilities designated at fair value through profit or loss or held for trading; and
- immediately upon sale or repayment of a hedged item, the unamortised fair value adjustments in items designated as fair value hedges and amounts accumulated in equity related to designated cash flow hedges.

NET FUNDS MANAGEMENT AND INSURANCE INCOME

Net Funds Management Income

We recognise the fees we charge to managed investment schemes and other customers when we have provided the service.

Net Insurance Income

We recognise:

- premiums with a regular due date as income on an accruals basis;
- claims on an accruals basis once our liability to the policyholder has been confirmed under the terms of the contract; and
- change in life insurance contract asset, net of liability for reinsurance, under the Margin of Service (MoS) model.

SHARE OF ASSOCIATES' PROFIT

The equity method is applied to accounting for associates in the consolidated financial statements. Under the equity method, the Banking Group's share of the after tax results of associates is included in the Income Statement and the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

3. OPERATING EXPENSES

	2018 NZ$m	2017 NZ$m
Personnel		
Salaries and related costs	820	801
Superannuation costs	29	29
Other	42	26
Personnel expenses	891	856
Premises		
Leasing and rental costs	82	80
Other	71	73
Premises expenses	153	153
Technology		
Licences and outsourced services	126	125
Other	99	93
Technology expenses	225	218
Other		
Advertising and public relations	43	41
Professional fees	45	43
Freight, stationery, postage and telephone	44	45
Charges from Ultimate Parent Bank	52	46
Other	64	66
Other expenses	248	241
Operating expenses	1,517	1,468

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

Operating expenses are recognised as services are provided to the Banking Group over the period in which an asset is consumed or once a liability is created.

SALARIES AND RELATED COSTS – ANNUAL LEAVE, LONG SERVICE LEAVE AND OTHER EMPLOYEE BENEFITS

Wages and salaries, annual leave, and other employee entitlements expected to be paid or settled within twelve months of employees rendering service are measured at their nominal amounts using remuneration rates that the Banking Group expects to pay when the liabilities are settled.

We accrue employee entitlements relating to long service leave using an actuarial calculation. It includes assumptions regarding staff departures, leave utilisation and future salary increases. The result is then discounted using market yields at the reporting date. The market yields are determined from a blended rate of high quality corporate bonds with terms to maturity that closely match the estimated future cash outflows.

If we expect to pay short term cash bonuses, then a liability is recognised when the Banking Group has a present legal or constructive obligation to pay this amount (as a result of past service provided by the employee) and the obligation can be reliably measured.

4. INCOME TAX

INCOME TAX EXPENSE

Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense recognised in profit or loss:

	2018 NZ$m	2017 NZ$m
Profit before income tax	2,704	2,445
Prima facie income tax expense at 28%	757	685
Tax effect of permanent differences:		
Imputed and non-assessable dividends	(1)	(1)
Tax provisions no longer required	(3)	(5)
Non assessable income and non deductible expenditure	(1)	2
Subtotal	752	681
Income tax over provided in previous years	(1)	(1)
Income tax expense	751	680
Current tax expense	910	641
Adjustments recognised in the current year in relation to the current tax of previous years	(1)	(1)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(158)	40
Income tax expense	751	680
Effective tax rate	27.8%	27.8%

RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

Income tax expense comprises both current and deferred taxes and is based on the accounting profit adjusted for differences in the accounting and tax treatments of income and expenses (that is, taxable income). We recognise tax expense in profit or loss except to the extent to which it relates to items recognised directly in equity and other comprehensive income, in which case we recognise directly in equity or other comprehensive income respectively.

CURRENT TAX EXPENSE

Current tax is the tax we expect to pay on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date. We recognise current tax as a liability (or asset) to the extent that it is unpaid (or refundable).

DEFERRED TAX ASSETS AND LIABILITIES

We account for deferred tax using the balance sheet method. Deferred tax arises because the accounting income is not always the same as the taxable income. This creates temporary differences, which usually reverse over time. Until they reverse, we recognise a deferred tax asset, or liability, on the balance sheet. We measure deferred taxes at the tax rates that we expect will apply to the period(s) when the asset is realised, or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

We offset current and deferred tax assets and liabilities only to the extent that: they relate to income taxes imposed by the same taxation authority; there is a legal right and intention to settle on a net basis; and it is allowed under the tax law of the relevant jurisdiction.

NOTES TO THE FINANCIAL STATEMENTS

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

Dividends	Amount per share	Total Dividend NZ$m
Financial Year 2017		
Dividend paid in March 2017	23.5 cents	785
Dividend paid in September 2017	26.9 cents	899
Dividends paid during the year ended 30 September 2017		1,684
Financial Year 2018		
Dividend paid in March 2018	23.9 cents	800
Dividend paid in April 2018	44.8 cents	1,500
Dividend paid in April 2018	31.0 cents	1,500
Dividend paid in September 2018	12.6 cents	800
Dividends paid during the year ended 30 September 2018		4,600

IMPUTATION CREDIT ACCOUNT

	2018 NZ$m	2017 NZ$m
Imputation credits available	4,919	4,196

The imputation credit balance for the Banking Group includes the imputation credit balance in relation to both the New Zealand Resident imputation group and other companies in the Banking Group that are not in the New Zealand Resident imputation group. The imputation credit balance available includes imputation credits that will arise from the payment of the amount of provision for income tax as at the reporting date.

6. SEGMENT REPORTING

OPERATING SEGMENTS

The Banking Group is organised into three major business segments for segment reporting purposes - Retail, Commercial and Institutional. Centralised back office and corporate functions support these segments. These segments are consistent with internal reporting provided to the chief operating decision maker, being the Bank's Chief Executive Officer.

Segment reporting has been updated to reflect minor changes to the Banking Group's structure. Comparative data has been adjusted to be consistent with the current year's segment definitions.

Retail

Retail provides a full range of banking and wealth management services to consumer, private banking and small business banking customers. We deliver our services via our internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centres.

Commercial

Commercial provides a full range of banking services including traditional relationship banking and sophisticated financial solutions through dedicated managers focusing on privately owned medium to large enterprises and the agricultural business segment.

Institutional

The Institutional division services global institutional and corporate customers across three product sets: Transaction Banking, Loans & Specialised Finance and Markets.

- Transaction Banking provides working capital and liquidity solutions including documentary trade, supply chain financing as well as cash management solutions, deposits, payments and clearing.
- Loans & Specialised Finance provides loan products, loan syndication, specialised loan structuring and execution, project and export finance, debt structuring and acquisition finance and corporate advisory.
- Markets provide risk management services on foreign exchange, interest rates, credit, commodities, debt capital markets in addition to managing the Banking Group's interest rate exposure and liquidity position.

Other

Other includes treasury and back office support functions, none of which constitutes a separately reportable segment.

6. SEGMENT REPORTING (continued)

Operating segment analysis

Year ended 30 September 2018	Retail NZ$m	Commercial NZ$m	Institutional NZ$m	Other NZ$m	Total NZ$m
Interest income	3,538	2,139	719	(6)	6,390
Interest expense	(1,761)	(1,169)	(394)	84	(3,240)
Net interest income	1,777	970	325	78	3,150
Other operating income	680	21	265	155	1,121
Share of associates' profit	5	-	-	-	5
Operating income	2,462	991	590	233	4,276
Operating expenses	(1,036)	(258)	(182)	(41)	(1,517)
Profit before credit impairment and income tax	1,426	733	408	192	2,759
Credit impairment (charge) / release	(50)	41	(46)	-	(55)
Profit before income tax	1,376	774	362	192	2,704
Income tax expense	(384)	(217)	(101)	(49)	(751)
Profit after income tax	992	557	261	143	1,953
Other information					
Goodwill[1]	1,109	1,052	1,069	-	3,230
Net loans and advances	76,843	42,446	7,166	11	126,466
Customer deposits	70,259	16,842	16,954	-	104,055

Year ended 30 September 2017	Retail NZ$m	Commercial NZ$m	Institutional NZ$m	Other NZ$m	Total NZ$m
Interest income	3,430	2,070	699	(1)	6,198
Interest expense	(1,727)	(1,170)	(339)	75	(3,161)
Net interest income	1,703	900	360	74	3,037
Other operating income	688	21	302	(78)	933
Share of associates' profit	5	-	-	-	5
Operating income	2,396	921	662	(4)	3,975
Operating expenses	(1,005)	(259)	(189)	(15)	(1,468)
Profit before credit impairment and income tax	1,391	662	473	(19)	2,507
Credit impairment (charge) / release	(35)	(51)	24	-	(62)
Profit before income tax	1,356	611	497	(19)	2,445
Income tax expense	(379)	(172)	(140)	11	(680)
Profit after income tax	977	439	357	(8)	1,765
Other information					
Goodwill[1]	1,109	1,052	1,069	-	3,230
Net loans and advances[1]	71,942	40,963	7,589	45	120,539
Customer deposits[1]	67,796	14,059	14,974	-	96,829

1 Including items reclassified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT REPORTING (continued)

OTHER SEGMENT

The Other segment profit/(loss) after income tax comprises:

	2018 NZ$m	2017 NZ$m
Central functions[1]	15	1
Technology and Group Centre	65	59
Economic hedges	48	(43)
Revaluation of insurance policies from changes in interest rates	15	(25)
Total	**143**	(8)

1 Central functions' external revenues for the year ended 30 September 2018 includes the $20 million insurance proceeds (Note 2 Operating Income) that were received from a member of the Overseas Banking Group.

7. CASH AND CASH EQUIVALENTS

	2018 NZ$m	2017 NZ$m
Coins, notes and cash at bank	204	202
Securities purchased under agreements to resell in less than 3 months	136	360
Balances with central banks	1,734	1,776
Settlement balances owed to the Banking Group within 3 months[1]	126	-
Cash and cash equivalents	**2,200**	2,338

Reconciliation of cash and cash equivalents to the balance sheet

	2018 NZ$m	2017 NZ$m
Cash and cash equivalents per the balance sheet	2,200	2,338
Amounts included in settlement balances receivable / (payable):		
Nostro accounts[1]	-	170
Overdrawn nostro accounts	-	(69)
Cash and cash equivalents as per the cash flow statement	**2,200**	2,439

1 Settlement balances due within 3 months have been recognised in cash and cash equivalents on the balance sheet from 30 September 2018.

8. TRADING SECURITIES

	2018 NZ$m	2017 NZ$m
Government securities	4,696	3,299
Corporate and financial institution securities	3,328	4,364
Trading securities	**8,024**	7,663

RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

- acquire principally for the purpose of selling in the short-term; or
- hold as part of a portfolio we manage for short-term profit making.

We recognise purchases and sales of trading securities on trade date:

- initially, we measure them at fair value; and
- subsequently, we measure them in the balance sheet at their fair value with any revaluation recognised in the profit or loss.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when applying the valuation techniques used to measure the fair value of trading securities not valued using quoted market prices. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value	Assets 2018 NZ$m	Liabilities 2018 NZ$m	Assets 2017 NZ$m	Liabilities 2017 NZ$m
Derivative financial instruments - held for trading	7,746	(7,023)	9,490	(8,992)
Derivative financial instruments - designated in hedging relationships	340	(1,072)	388	(834)
Derivative financial instruments	8,086	(8,095)	9,878	(9,826)

FEATURES

Derivative financial instruments are contracts:

- whose value is derived from an underlying price index (or other variable) defined in the contract – sometimes the value is derived from more than one variable;
- that require little or no initial net investment; and
- that are settled at a future date.

Movements in the price of the underlying variables, which cause the value of the contract to fluctuate, are reflected in the fair value of the derivative.

PURPOSE

The Banking Group's derivative financial instruments have been categorised as follows:

Trading	Derivatives held in order to: • meet customer needs for managing their own risks. • manage risk in the Banking Group's positions that are not part of a designated hedge accounting relationship. • undertake market making and positioning activities to generate profits from short-term fluctuations in prices or margins.
Designated in Hedging Relationships	Derivatives designated into hedge accounting relationships in order to minimise profit or loss volatility by matching movements to underlying positions relating to: • hedges of the Banking Group's exposures to interest rate risk and currency risk. • hedges of other exposures relating to non-trading positions.

TYPES

The Banking Group offers and uses four different types of derivative financial instruments:

Forwards	A contract documenting the rate of interest, or the currency exchange rate, to be paid or received on a notional principal obligation at a future date.
Futures	An exchange traded contract in which the parties agree to buy and sell an asset in the future for a price agreed on the transaction date, with a net settlement in cash paid on the future date without physical delivery of the asset.
Swaps	A contract in which one party exchanges one series of cash flows for another.
Options	A contract in which the buyer of the contract has the right - but not the obligation - to buy (known as a "call option") or to sell (known as a "put option") an asset or instrument at a set price on a future date. The seller has the corresponding obligation to fulfil the transaction to sell or buy the asset or instrument if the buyer exercises the option.

RISKS MANAGED

The Banking Group offers and uses the instruments described above to manage fluctuations in the following market factors:

Foreign Exchange	Currencies at current or determined rates of exchange.
Interest Rate	Fixed or variable interest rates applying to money lent, deposited or borrowed.
Commodity	Soft commodities (that is, agricultural products such as wheat, coffee, cocoa, and sugar) and hard commodities (that is, mined products such as gold, oil and gas).
Credit	Counterparty risk in the event of default.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

The majority of the Banking Group's derivative financial instruments are held for trading. The fair value of derivative financial instruments held for trading are:

Fair value	Assets 2018 NZ$m	Liabilities 2018 NZ$m	Assets 2017 NZ$m	Liabilities 2017 NZ$m
Interest rate contracts				
Forward rate agreements	5	(4)	-	-
Futures contracts	7	(10)	5	(24)
Swap agreements	4,242	(3,920)	7,062	(6,335)
Options purchased	3	-	3	-
Options sold	-	(1)	-	(1)
Total	4,257	(3,935)	7,070	(6,360)
Foreign exchange contracts				
Spot and forward contracts	1,179	(889)	615	(696)
Swap agreements	2,248	(2,146)	1,773	(1,895)
Options purchased	34	(3)	17	-
Options sold	2	(24)	2	(27)
Total	3,463	(3,062)	2,407	(2,618)
Commodity contracts and credit default swaps	26	(26)	13	(14)
Derivative financial instruments - held for trading	7,746	(7,023)	9,490	(8,992)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

The Banking Group utilises two types of hedge accounting relationships:

	Fair value hedge	Cash flow hedge
Objective of this hedging arrangement	To hedge our exposure to changes to the fair value of a recognised asset or liability or unrecognised firm commitment caused by interest rate or foreign currency movements.	To hedge our exposure to variability in cash flows of a recognised asset or liability, a foreign exchange component of a firm commitment or a highly probable forecast transaction caused by interest rate, foreign currency and other price movements.
Recognition of effective hedge portion	The following are recognised in profit or loss at the same time: • all changes in the fair value of the underlying item relating to the hedged risk; and • the change in the fair value of derivatives.	We recognise the effective portion of changes in the fair value of derivatives designated as a cash flow hedge in the cash flow hedge reserve.
Recognition of ineffective hedge portion	Recognised immediately in other operating income.	
If a hedging instrument expires, or is sold, terminated, or exercised; or no longer qualifies for hedge accounting	When we recognise the hedged item in profit or loss, we recognise the related unamortised fair value adjustment in profit or loss. This may occur over time if the hedged item is amortised to profit or loss as part of the effective yield over the period to maturity.	Only when we recognise the hedged item in profit or loss is the amount previously deferred in the cash flow hedge reserve transferred to profit or loss.
Hedged item sold or repaid	We recognise the unamortised fair value adjustment immediately in profit or loss.	Amounts accumulated in equity are transferred immediately to profit or loss.

The fair value of derivative financial instruments designated in hedging relationships are:

Fair value	Hedge accounting type	Assets 2018 NZ$m	Liabilities 2018 NZ$m	Assets 2017 NZ$m	Liabilities 2017 NZ$m
Interest rate swap agreements	Fair value	54	(819)	86	(618)
Interest rate swap agreements	Cash flow	286	(253)	302	(216)
Derivative financial instruments - designated in hedging relationships		340	(1,072)	388	(834)

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The impact recognised in profit or loss arising from derivative financial instruments designated in hedge accounting relationships, is as follows:

	Hedge accounting type	2018 NZ$m	2017 NZ$m
Gain/(loss) recognised in other operating income			
Hedged item	Fair value	212	153
Hedging instrument	Fair Value	(221)	(159)

RECOGNITION AND MEASUREMENT

Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is: positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Banking Group's contractual obligations are discharged, cancelled or expired.
Impact on the Income Statement	How we recognise gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated into a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss. For an instrument designated into a hedging relationship the recognition of gains or losses depends on the nature of the item being hedged. Refer to the previous table on page 19 for profit or loss treatment depending on the hedge type.
Hedge effectiveness	To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met: • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). The Banking Group monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select the valuation techniques used to measure the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

10. AVAILABLE-FOR-SALE ASSETS

Period	Security type	2018 Government securities NZ$m	2018 Corporate and financial institution securities NZ$m	2018 Equity securities NZ$m	2018 Total NZ$m	2017 Government securities NZ$m	2017 Corporate and financial institution securities NZ$m	2017 Equity securities NZ$m	2017 Total NZ$m
Less than 3 months		110	19	-	129	277	270	-	547
Between 3 and 12 months		616	162	-	778	695	158	-	853
Between 1 and 5 years		3,134	1,831	-	4,965	2,609	1,578	-	4,187
Greater than 5 years		458	171	-	629	657	115	-	772
No maturity		-	-	1	1	-	-	1	1
Available-for-sale assets		4,318	2,183	1	6,502	4,238	2,121	1	6,360

RECOGNITION AND MEASUREMENT

Available-for-sale (AFS) assets comprise non-derivative financial assets which we designate as AFS since we do not hold them principally for trading purposes. They include both equity and debt securities. AFS assets are initially recognised at fair value plus transaction costs and are revalued at least bi-annually. On revaluation, we include movements in fair value within the available-for-sale revaluation reserve in equity, except for certain items which are recognised directly in profit or loss, being interest on debt securities, dividends received, foreign exchange on debt securities and impairment charges.

When we sell the asset, any cumulative gain or loss from the available-for-sale revaluation reserve is recognised in profit or loss.

At each reporting date, we assess whether any AFS assets are impaired. We assess the impairment of any debt securities if an event has occurred which will have a negative impact on the asset's estimated cash flows. For equity securities, we assess if there is a significant or prolonged decline in fair value below cost.

If an AFS asset is impaired, then we remove the cumulative loss related to that asset from the available-for-sale revaluation reserve. We then recognise it in profit or loss for:

- debt instruments, as a credit impairment expense; and
- equity instruments, as a negative impact in other operating income.

We recognise any later reversals of impairment on debt securities in the profit or loss through the credit impairment charge line. However, we do not make any reversals of impairment for equity securities. To the extent previously impaired equity securities recover in value, gains are recognised directly in equity.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select valuation techniques used to measure the fair value of AFS assets not valued using quoted market prices, particularly the selection of valuation inputs that are not readily observable. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS

11. NET LOANS AND ADVANCES

The following table provides details of net loans and advances for the Banking Group:

	Note	2018 NZ$m	2017 NZ$m
Overdrafts		905	1,040
Credit cards		1,644	1,638
Term loans - housing		78,395	72,524
Term loans - non-housing		44,169	44,227
Finance lease and hire purchase receivables		1,791	1,577
Subtotal		**126,904**	121,006
Unearned income		(239)	(222)
Capitalised brokerage/mortgage origination fees		313	334
Gross loans and advances (including assets reclassified as held for sale)		**126,978**	121,118
Provision for credit impairment	12	(512)	(579)
Net loans and advances (including assets reclassified as held for sale)		**126,466**	120,539
Less: Net loans and advances reclassified as held for sale	25	-	(2,912)
Net loans and advances		**126,466**	117,627
Residual contractual maturity:			
- within one year		26,896	23,799
- after more than one year		99,570	93,828
Net loans and advances		**126,466**	117,627

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ$2,210 million as at 30 September 2018 (2017: NZ$4,337 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

RECOGNITION AND MEASUREMENT

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are facilities the Banking Group provides directly to customers or through third party channels.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the issue of the loan or advance, which are primarily brokerage/mortgage origination fees which we amortise over the estimated life of the loan. Subsequently, we then measure loans and advances at amortised cost using the effective interest rate method, net of any provision for credit impairment.

We classify contracts to lease assets and hire purchase agreements as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party.

The Banking Group enters into transactions in which it transfers financial assets that are recognised on its balance sheet. When the Banking Group retains substantially all of the risks and rewards of the transferred assets, the transferred assets remain on the Banking Group's balance sheet, however if substantially all the risks and rewards are transferred, the Banking Group derecognises the asset.

If the risks and rewards are partially retained and control over the asset is lost, then the Banking Group derecognises the asset. If control over the asset is not lost, the Banking Group continues to recognise the asset to the extent of its continuing involvement.

We separately recognise the rights and obligations retained, or created, in the transfer as assets and liabilities as appropriate.

12. PROVISION FOR CREDIT IMPAIRMENT

PROVISION FOR CREDIT IMPAIRMENT – BALANCE SHEET

	Net loans and advances		Off-balance sheet credit related commitments		Total	
Provision for credit impairment	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Individual provision						
Balance at start of year	152	151	-	-	152	151
New and increased provisions	213	232	-	-	213	232
Write-backs	(83)	(95)	-	-	(83)	(95)
Bad debts written off (excluding recoveries)	(149)	(133)	-	-	(149)	(133)
Discount unwind	(3)	(3)	-	-	(3)	(3)
Total individual provision	130	152	-	-	130	152
Collective provision						
Balance at start of year	343	367	84	104	427	471
Release to profit or loss	(32)	(24)	(13)	(20)	(45)	(44)
Total collective provision	311	343	71	84	382	427
Total provision for credit impairment	441	495	71	84	512	579

CREDIT IMPAIRMENT CHARGE – INCOME STATEMENT

Credit impairment charge	2018 NZ$m	2017 NZ$m
New and increased provisions	213	232
Write-backs	(83)	(95)
Recoveries of amounts previously written-off	(30)	(31)
Individual credit impairment charge	100	106
Collective credit impairment release	(45)	(44)
Total credit impairment charge	55	62

NOTES TO THE FINANCIAL STATEMENTS

12. PROVISION FOR CREDIT IMPAIRMENT (continued)

RECOGNITION AND MEASUREMENT

The Banking Group recognises two types of impairment provisions for its loans and advances:

- individual provisions for significant assets that are assessed to be impaired; and
- collective provisions for portfolios of similar assets that are assessed collectively for impairment.

The accounting treatment for each of them is detailed below:

	Individually	Collectively
Assessment	If any impaired loans and advances exceed specified thresholds and an impairment event has been identified, then we assess the need for a provision individually.	To allow for any small value loans and advances where losses may have been incurred but not yet identified, and individually significant loans and advances that we do not assess as impaired, we assess them collectively in pools of assets with similar risk characteristics.
Impairment	Loans and advances are assessed as impaired if we have objective evidence that we may not recover principal or interest payments (that is, a loss event has been incurred).	We estimate the provision on the basis of historical loss experience for assets with similar credit risk characteristics to others in the respective collective pool. We adjust the historical loss experience based on current observable data – such as: changing economic conditions, the impact of the inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.
Measurement	We measure impairment loss as the difference between the asset's carrying amount and estimated future cash flows discounted to their present value at the asset's original effective interest rate. We record the result as an expense in profit or loss in the period we identify the impairment and recognise a corresponding reduction in the carrying amount of loans and advances through an offsetting provision.	
Uncollectable amounts	If a loan or advance is uncollectable (whether partially or in full), then we write off the balance (and also any related provision for credit impairment). We write off unsecured retail facilities at the earlier of the facility becoming 180 days past due, or the customer's bankruptcy or similar legal release from the obligation to repay the loan or advance. For secured facilities, write offs occur net of the proceeds determined to be recoverable from the realisation of collateral.	
Recoveries	If we recover any cash flows from loans and advances we have previously written off, then we recognise the recovery in profit or loss in the period the cash flows are received.	
Off-balance sheet amounts	Any off-balance sheet items, such as loan commitments, are considered for impairment both on an individual and collective basis.	

KEY JUDGEMENTS AND ESTIMATES

When we measure impairment of loans and advances, we use management's judgement of the extent of losses at reporting date.

	Individually	Collectively
Key Judgements	• estimated future cash flows • business prospects for the customer • realisable value of any collateral • the Banking Group's position relative to other claimants • reliability of customer information • likely cost and duration of recovering loans	• estimated future cash flows • historical loss experience of assets with similar risk characteristics • impact of large concentrated losses inherent in the portfolio • assessment of the economic cycle

We regularly review our key judgements and update them to reflect actual loss experience.

13. DEPOSITS AND OTHER BORROWINGS

	Note	2018 NZ$m	2017 NZ$m
Term deposits		**51,298**	45,457
On demand and short term deposits		**41,602**	41,451
Deposits not bearing interest		**10,224**	8,882
UDC secured investments	17	**931**	1,039
Total customer deposits		**104,055**	96,829
Certificates of deposit		**910**	1,916
Commercial paper		**2,486**	3,721
Securities sold under repurchase agreements		**517**	157
Deposits from Immediate Parent Company and NZ Branch	26	**40**	73
Deposits and other borrowings (including liabilities reclassified as held for sale)		**108,008**	102,696
Less: Deposits and other borrowings reclassified as held for sale	25	**-**	(1,039)
Deposits and other borrowings		**108,008**	101,657
Residual contractual maturity:			
- to be settled within 1 year		**103,492**	97,301
- to be settled after 1 year		**4,516**	4,356
Deposits and other borrowings		**108,008**	101,657
Carried on Balance Sheet at:			
Amortised cost		**105,522**	97,936
Fair value through profit or loss (designated on initial recognition)		**2,486**	3,721
Deposits and other borrowings		**108,008**	101,657

RECOGNITION AND MEASUREMENT

For deposits and other borrowings that:

- are not designated at fair value through profit or loss on initial recognition, we measure them at amortised cost and recognise their interest expense using the effective interest rate method; and
- are managed on a fair value basis, reduce or eliminate an accounting mismatch or contain an embedded derivative, we designate them as fair value through profit or loss.

Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for details of the split between amortised cost and fair value.

For deposits and other borrowings designated at fair value we recognise the amount of fair value gain or loss attributable to changes in the Banking Group's own credit risk in other comprehensive income in retained earnings. Any remaining amount of fair value gain or loss we recognise directly in profit or loss. Once we have recognised an amount in other comprehensive income, we do not later reclassify it to profit or loss.

Securities sold under repurchase agreements represent a liability to repurchase the financial assets that remain on our balance sheet since the risks and rewards of ownership remain with the Banking Group. Over the life of the repurchase agreement, we recognise the difference between the sale price and the repurchase price and charge it to interest expense in the Income Statement.

14. DEBT ISSUANCES

The Banking Group uses a variety of funding programmes to issue unsubordinated debt (including senior debt and covered bonds) and subordinated debt. The difference between unsubordinated debt and subordinated debt is that holders of unsubordinated debt take priority over holders of subordinated debt owed by the relevant issuer and subordinated debt will be repaid by the relevant issuer only after the repayment of claims of depositors, other creditors and the senior debt holders.

	2018 NZ$m	2017 NZ$m
Senior debt	18,767	16,008
Covered bonds	3,929	5,315
Total unsubordinated debt	22,696	21,323
Subordinated debt		
- Additional Tier 1 capital	2,439	2,438
- Other	-	845
Total subordinated debt	2,439	3,283
Total debt issued	25,135	24,606

TOTAL DEBT ISSUED BY CURRENCY

The table below shows the Banking Group's issued debt by currency of issue, which broadly represents the debt holders' base location.

		2018 NZ$m	2017 NZ$m
AUD	Australian Dollars	45	54
EUR	Euro	6,740	6,676
JPY	Japanese Yen	36	38
NZD	New Zealand Dollars	6,654	7,147
CHF	Swiss Francs	1,658	1,672
USD	United States Dollars	10,002	9,019
Total debt issued		25,135	24,606
Residual contractual maturity:			
- to be settled within 1 year		3,835	4,014
- to be settled after 1 year		21,300	20,592
Total debt issued		25,135	24,606

Covered bonds are guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust (the Covered Bond Trust). The Covered Bond Trust is a member of the Banking Group, whereas the Covered Bond Guarantor is not a member of the Banking Group.

NZX Regulation has granted the Bank a waiver from NZX Debt Market Listing Rule (Rule) 7.12.1 to the extent that this Rule requires the Bank to release to the market details of any acquisition of the Bank's domestic bonds as a result of its market-making activities or trading on behalf of its clients. The Bank will notify the NZX if any such domestic bonds are subsequently cancelled. Rule 7.12.1 does not extend to the Bank's subsidiaries in this context. The Bank will continue to comply with Rule 7.12.1 in respect of any domestic bonds that are issued, redeemed or purchased by the Bank in any other capacity.

Senior debt includes a series of bonds quoted on the NZX Debt Market that matures on 22 March 2019 (the Bonds). NZX Regulation has granted the Bank a waiver from the requirement in Rule 5.2.3 (as modified by NZX Regulation's Ruling on Rule 5.2.3 issued on 29 September 2015) for the Bonds to be held by at least 100 members of the public holding at least 25% of the Bonds issued (Spread). The effect of this waiver is that the Bonds may not be widely held and there may be reduced liquidity in the Bonds. If there is a material reduction in the Spread of the Bonds, the Bank will notify NZX as appropriate.

SUBORDINATED DEBT

Certain subordinated debt qualifies as regulatory capital for the Banking Group and is classified as Additional Tier 1 (AT1) capital for RBNZ's capital adequacy purposes depending on their term and conditions:

- AT1 Capital: perpetual capital instruments such as:
  - ANZ NZ Capital Notes (ANZ NZ CN);
  - ANZ NZ Internal Capital Notes 1 (ANZ NZ ICN); and
  - ANZ NZ Internal Capital Notes 2 (ANZ NZ ICN2).

14. DEBT ISSUANCES (continued)

AT1 Capital

AT1 capital notes are fully paid convertible non-cumulative perpetual subordinated notes. The AT1 capital notes rank equally with each other and with the Bank's preference shares. Holders of AT1 capital notes do not have any right to vote in general meetings of the Bank.

As at 30 September 2018, ANZ NZ CN carried a BB+ credit rating from S&P Global Ratings.

AT1 capital notes are classified as debt given there are circumstances beyond the Bank's control where the principal is converted into a variable number of ordinary shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) or the Ultimate Parent Bank (ANZ NZ CN).

Interest payments on the AT1 capital notes are non-cumulative and subject to the issuer's absolute discretion and certain payment conditions (including regulatory requirements).

Where specified, AT1 capital notes provide the Bank with an early redemption or conversion option on a specified date and in certain other circumstances (such as a tax or regulatory event). This option is subject to RBNZ's and, in respect of the ANZ NZ CN, APRA's prior written approval.

Each of the AT1 capital notes will immediately convert into a variable number of ordinary shares of the:
- Bank based on the net assets per share in the Bank's most recently published Disclosure Statement (ANZ NZ ICN and ANZ NZ ICN2); or
- Ultimate Parent Bank based on the average market price of the Ultimate Parent Bank's ordinary shares immediately prior to conversion less a 1% discount, subject to a maximum conversion number (ANZ NZ CN)

if:
- the Banking Group's, or in the case of the ANZ NZ CN the Overseas Banking Group's Level 2, common equity tier 1 capital ratio is equal to or less than 5.125% - known as a Common Equity Capital Trigger Event; or
- RBNZ directs the Bank to convert or write-off the notes or a statutory manager is appointed to the Bank and decides that the Bank must convert or write-off the notes or, in the case of the ANZ NZ CN, APRA notifies the Ultimate Parent Bank that, without the conversion or write-off of certain securities or a public injection of capital (or equivalent support), it considers that the Ultimate Parent Bank would become non-viable – known as a Non-Viability Trigger Event.

Where specified, AT1 capital notes mandatorily convert into a variable number of ordinary shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) (based on the net assets per share in the Bank's most recently published Disclosure Statement) or the Ultimate Parent Bank (ANZ NZ CN) (based on the average market value of the shares immediately prior to conversion less a 1% discount):
- on a specified mandatory conversion date; or
- on an earlier date under certain circumstances as set out in the terms.

However, the mandatory conversion is deferred for a specified period if certain conversion tests are not met.

The table below show the key details of the AT1 capital notes on issue at 30 September in both the current and the prior year:

	ANZ NZ CN	ANZ NZ ICN	ANZ NZ ICN2
Issuer	The Bank	The Bank	The Bank
Issue date	31 March 2015	5 March 2015	15 June 2016
Issue amount	NZ$500 million	NZ$1,003 million	NZ$938 million
Face value	NZ$1	NZ$100	NZ$100
Interest frequency	Quarterly in arrears	Semi-annually in arrears	Semi-annually in arrears
Interest rate	Fixed at 7.2% p.a. until 25 May 2020. Resets in May 2020 to a floating rate: (New Zealand 3 month Bank bill rate + 3.5%)	Floating rate: (New Zealand 6 month Bank Bill rate + 3.8%)	Floating rate: (New Zealand 6 month Bank Bill rate + 6.29%)
Issuer's early redemption or conversion option	25 May 2020	24 March 2023	15 June 2026 and each 5th anniversary
Mandatory conversion date	25 May 2022	24 March 2025	n/a
Common equity capital trigger event	Yes	Yes	Yes
Non-viability trigger event	Yes	Yes	Yes
Carrying value as at 30 September 2018 (net of issue costs)	NZ$498 million	NZ$1,003 million	NZ$938 million

RECOGNITION AND MEASUREMENT

Debt issuances are measured at amortised cost. Where the Banking Group enters into a hedge accounting relationship, the fair value attributable to the hedge risk is reflected in adjustments to the carrying value of the debt. Interest expense is recognised using the effective interest rate method.

Subordinated debt with capital-based conversion features (i.e. Common Equity Capital Trigger Event or Non-Viability Trigger Events) are considered to contain embedded derivatives that we account for separately at fair value through profit and loss. The embedded derivatives arise because the amount of shares issued on conversion following any of those trigger events is subject to the maximum conversion number, however they have no value as of the reporting date given the remote nature of those triggering events.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

The use of financial instruments is fundamental to the Banking Group's businesses of providing banking and other financial services to our customers. The associated financial risks (primarily credit, market, and liquidity risks) are a significant portion of the Banking Group's principal risks.

This note details the Banking Group's financial risk management policies, processes and quantitative disclosures in relation to the key financial risks:

Principal financial risks	Key sections applicable to this risk
Overview	• An overview of our Risk Management Framework
Credit risk Credit risk is the risk of financial loss from a customer, or counterparty, failing to meet their financial obligations – including the whole and timely payment of principal, interest, collateral, and other receivables.	• Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management
Market risk Market risk is the risk of loss arising from potential adverse changes in the value of the Banking Group's assets and liabilities and other trading positions from fluctuations in market variables. These variables include, but are not limited to interest rates, foreign exchange, equity prices, commodity prices, credit spreads, implied volatilities, and asset correlations.	• Market risk overview, management and control responsibilities • Measurement of market risk • Traded and non-traded market risk • Foreign currency risk – structural exposure
Liquidity and funding risk Liquidity risk is the risk that the Banking Group is unable to meet its payment obligations when they fall due; or does not have the appropriate amount, tenor and composition of funding and liquidity to fund increases in its assets.	• Liquidity risk overview, management and control responsibilities • Key areas of measurement for liquidity risk • Liquidity portfolio management • Funding position • Residual contractual maturity analysis of the Banking Group's liabilities

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

This overview is provided to aid the users of the financial statements to understand the context of the financial disclosures required under NZ IFRS 7 *Financial Instruments: Disclosures*.

The Board is responsible for establishing and overseeing the Banking Group's Risk Management Framework (RMF). The Board has delegated authority to the Bank's Board Risk Committee (BRC) to develop and monitor compliance with the Banking Group's financial risk management policies. The BRC reports regularly to the Board on its activities.

The Board approves the strategic objectives of the Banking Group including:

- the Risk Appetite Statement (RAS), which sets out the Board's expectations regarding the degree of risk that the Banking Group is prepared to accept in pursuit of its strategic objectives and business plan; and
- the Risk Management Strategy (RMS), which describes the Banking Group's strategy for managing risks and the key elements of the RMF that gives effect to this strategy. This includes a description of each material risk, and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how the Banking Group identifies measures, evaluates, monitors, reports and controls or mitigates material risks.

The Banking Group, through its training and management standards and procedures, aims to maintain a disciplined and robust control environment in which all employees understand their roles and obligations. At the Banking Group, risk is everyone's responsibility.

The Banking Group has an independent risk management function, headed by the Chief Risk Officer who:

- is responsible for overseeing the risk profile and the risk management framework;
- can effectively challenge activities and decisions that materially affect the Banking Group's risk profile; and
- has an independent reporting line to the BRC to enable the appropriate escalation of issues of concern.

The Internal Audit Function reports directly to the Bank's Board Audit Committee (BAC). Internal Audit provides:

- an independent evaluation of the Banking Group's RMF annually and undertakes a comprehensive review every three years;
- assurance on the appropriateness, effectiveness and adequacy of the risk management framework, which includes assurance the framework is operating effectively; and
- recommendations to improve the framework and/or work practices to strengthen the effectiveness of day to day operations.

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Granting credit facilities to customers is one of the Banking Group's major sources of income. As this activity is also a principal risk, the Banking Group dedicates considerable resources to its management. The Banking Group assumes credit risk in a wide range of lending and other activities in diverse markets and in many jurisdictions. Credit risks arise from traditional lending to customers as well as from inter-bank, treasury, trade finance and capital markets activities around the world.

Our credit risk management framework ensures we apply a consistent approach across the Banking Group when we measure, monitor and manage the credit risk appetite set by the Board. The Board is assisted and advised by the BRC in discharging its duty to oversee credit risk. The BRC:

- sets the credit risk appetite and credit strategies; and
- approves credit transactions beyond the discretion of executive management.

We quantify credit risk through an internal credit rating system (masterscales) to ensure consistency across exposure types and to provide a consistent framework for reporting and analysis. The system uses models and other tools to measure the following for customer exposures:

Probability of Default (PD)	Expressed by a Customer Credit Rating (CCR), reflecting the Banking Group's assessment of a customer's ability to service and repay debt.
Exposure at Default (EAD)	The expected amount of loan outstanding at the time of default.
Loss Given Default (LGD)	Expressed by a Security Indicator (SI) ranging from A to G. The SI is calculated by reference to the percentage of loan covered by security which the Banking Group can realise if a customer defaults. The A-G scale is supplemented by a range of other SIs which cover such factors as cash cover and sovereign backing. For retail and some small business lending, we group exposures into large homogenous pools – and the LGD is assigned at the pool level.

Our specialist credit risk teams develop and validate the Banking Group's PD and LGD rating models. The outputs from these models drive our day-to-day credit risk management decisions including origination, pricing, approval levels, regulatory capital adequacy, economic capital allocation, and credit provisioning.

All customers with whom the Banking Group has a credit relationship are assigned a CCR at origination via either of the following assessment approaches:

Large and more complex lending	Retail and some small business lending
Rating models provide a consistent and structured assessment, with judgement required around the use of out-of-model factors. We handle credit approval on a dual approval basis, jointly with the business writer and an independent credit officer.	Automated assessment of credit applications using a combination of scoring (application and behavioural), policy rules and external credit reporting information. If the application does not meet the automated assessment criteria, then it is referred out for manual assessment.

We use the Banking Group's internal CCRs to manage the credit quality of financial assets neither past due nor impaired. To enable wider comparisons, the Banking Group's CCRs are mapped to external rating agency scales as follows:

Internal Rating	The Banking Group Customer Requirements	Moody's Rating	S&P Global Ratings
Strong credit profile	Demonstrated superior stability in their operating and financial performance over the long-term, and whose earnings capacity is not significantly vulnerable to foreseeable events.	Aaa – Baa3	AAA – BBB-
Satisfactory risk	Demonstrated sound operational and financial stability over the medium to long-term — even though some may be susceptible to cyclical trends or variability in earnings.	Ba1 – B1	BB+ – B+
Sub-standard but not past due nor impaired	Demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.	B2 – Caa	B - CCC

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

MAXIMUM EXPOSURE TO CREDIT RISK

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity instruments which are primarily subject to market risk, or bank notes and coins.

For undrawn facilities, this maximum exposure to credit risk is the full amount of the committed facilities. For contingent exposures, the maximum exposure to credit risk is the maximum amount the Banking Group would have to pay if the instrument is called upon.

For the purpose of this note, assets presented as assets held for sale in the Balance Sheet have been reallocated to their respective Balance Sheet categories.

The table below shows our maximum exposure to credit risk of on-balance sheet and off-balance sheet positions before taking account of any collateral held or other credit enhancements.

	Reported		Excluded[1] / Other[2]		Maximum exposure to credit risk	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
On-balance sheet positions						
Net loans and advances[2,3]	**126,466**	120,539	**(71)**	(84)	**126,537**	120,623
Other financial assets:						
Cash and cash equivalents	**2,200**	2,338	**204**	198	**1,996**	2,140
Settlement balances owed to the Banking Group	**656**	536	**-**	-	**656**	536
Collateral paid	**1,919**	1,415	**-**	-	**1,919**	1,415
Trading securities	**8,024**	7,663	**-**	-	**8,024**	7,663
Derivative financial instruments	**8,086**	9,878	**-**	-	**8,086**	9,878
Available-for-sale assets	**6,502**	6,360	**-**	-	**6,502**	6,360
Other financial assets[4]	**719**	744	**-**	-	**719**	744
Total other financial assets	**28,106**	28,934	**204**	198	**27,902**	28,736
Subtotal	**154,572**	149,473	**133**	114	**154,439**	149,359
Off-balance sheet positions						
Undrawn and contingent facilities[2,5]	**30,105**	29,377	**71**	84	**30,034**	29,293
Total	**184,677**	178,850	**204**	198	**184,473**	178,652

1 Excluded comprises bank notes and coins and cash at bank within cash and cash equivalents.
2 Other relates to the transfer of individual and collective provisions related to off-balance sheet facilities held in net loans and advances. The provisions are transferred for the purposes of showing the maximum exposure to credit risk by relevant facility type in this and the following tables.
3 Including items reclassified as held for sale.
4 Other financial assets mainly comprise accrued interest, insurance receivables and acceptances.
5 Undrawn facilities and contingent facilities include guarantees, letters of credit and performance related contingencies.

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT QUALITY

The table below provides an analysis of the credit quality of the maximum exposure to credit risk split by:

- neither past due nor impaired financial assets by credit quality;
- past due but not impaired assets by ageing; and
- impaired assets presented as gross amounts and net of provision for credit impairment.

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Neither past due nor impaired								
Strong credit profile	92,783	81,595	27,368	28,024	23,475	22,922	143,626	132,541
Satisfactory risk	29,335	34,283	521	702	6,186	6,016	36,042	41,001
Sub-standard but not past due or impaired	2,296	2,558	13	10	359	349	2,668	2,917
Subtotal	124,414	118,436	27,902	28,736	30,020	29,287	182,336	176,459
Past due but not impaired								
≥ 1 < 30 days	1,420	1,385	-	-	-	-	1,420	1,385
≥ 30 < 60 days	179	290	-	-	-	-	179	290
≥ 60 < 90 days	128	125	-	-	-	-	128	125
≥ 90 days	205	182	-	-	-	-	205	182
Subtotal	1,932	1,982	-	-	-	-	1,932	1,982
Impaired								
Impaired loans	321	357	-	-	-	-	321	357
Non-performing commitments and contingencies	-	-	-	-	14	6	14	6
Gross impaired financial assets	321	357	-	-	14	6	335	363
Individual provisions	(130)	(152)	-	-	-	-	(130)	(152)
Subtotal net impaired	191	205	-	-	14	6	205	211
Total	126,537	120,623	27,902	28,736	30,034	29,293	184,473	178,652

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CONCENTRATIONS OF CREDIT RISK

Credit risk becomes concentrated when a number of customers are engaged in similar activities, have similar economic characteristics, or have similar activities within the same geographic region – therefore, they may be similarly affected by changes in economic or other conditions. The Banking Group monitors its credit portfolio to manage risk concentration and rebalance the portfolio. The Banking Group also applies single customer counterparty limits to protect against unacceptably large exposures to one single customer.

Analysis of financial assets by industry sector is based on Australian and New Zealand Standard Industrial Classification (ANZSIC) codes. The significant categories shown are the level one New Zealand Standard Industry Output Categories (NZSIOC), except that Agriculture is shown separately as required by the Order.

Composition of financial instruments that give rise to credit risk by industry group are presented below:

	Loans and advances[3,4]		Other financial assets[4]		Off-balance sheet credit related commitments[5]		Total	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
New Zealand residents								
Agriculture	17,844	17,686	82	83	1,373	1,436	19,299	19,205
Forestry and fishing, agriculture services	1,379	1,277	9	5	249	240	1,637	1,522
Manufacturing	2,687	2,729	284	169	1,793	1,798	4,764	4,696
Electricity, gas, water and waste services	1,403	1,602	330	457	1,576	1,522	3,309	3,581
Construction	1,713	1,635	21	18	1,358	1,119	3,092	2,772
Wholesale trade	1,404	1,630	63	54	1,521	1,357	2,988	3,041
Retail trade and accommodation	3,211	3,058	27	28	969	1,133	4,207	4,219
Transport, postal and warehousing	1,222	1,440	121	69	783	894	2,126	2,403
Finance and insurance services	872	903	5,509	5,268	1,567	1,259	7,948	7,430
Public administration and safety[1]	364	412	9,654	8,099	1,043	794	11,061	9,305
Rental, hiring & real estate services	31,805	30,697	235	218	3,461	3,699	35,501	34,614
Professional, scientific, technical, administrative and support services	1,165	1,267	9	10	633	619	1,807	1,896
Households	56,808	51,554	192	180	11,977	11,878	68,977	63,612
All other New Zealand residents[2]	2,569	2,625	167	253	1,663	1,474	4,399	4,352
Subtotal	124,446	118,515	16,703	14,911	29,966	29,222	171,115	162,648
Overseas								
Finance and insurance services	128	123	11,109	13,126	139	155	11,376	13,404
Households	1,512	1,454	5	5	-	-	1,517	1,459
All other non-NZ residents	818	914	85	694	-	-	903	1,608
Subtotal	2,458	2,491	11,199	13,825	139	155	13,796	16,471
Gross subtotal	126,904	121,006	27,902	28,736	30,105	29,377	184,911	179,119
Provision for credit impairment	(441)	(495)	-	-	(71)	(84)	(512)	(579)
Subtotal	126,463	120,511	27,902	28,736	30,034	29,293	184,399	178,540
Unearned income	(239)	(222)	-	-	-	-	(239)	(222)
Capitalised brokerage / mortgage origination fees	313	334	-	-	-	-	313	334
Maximum exposure to credit risk	126,537	120,623	27,902	28,736	30,034	29,293	184,473	178,652

1 Public administration and safety includes exposures to local government administration and central government administration, defence and public safety.
2 Other includes exposures to mining, information media and telecommunications, education and training, health care and social assistance and arts, recreation and other services.
3 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.
4 Including items classified as held for sale.
5 Credit related commitments comprise undrawn facilities, customer contingent liabilities and letters of offer.

15. FINANCIAL RISK MANAGEMENT (continued)

COLLATERAL MANAGEMENT

We use collateral for on and off-balance sheet exposures to mitigate credit risk if a counterparty cannot meet its repayment obligations from its expected cashflows. For some products, the collateral provided by customers is fundamental to the product's structuring, so it is not strictly the secondary source of repayment - for example, lending secured by trade receivables is typically repaid by the collection of those receivables.

The nature of collateral or security held for the relevant classes of financial assets is as follows:

Net loans and advances	
Loans – housing and personal	Housing loans are secured by mortgage(s) over property and additional security may take the form of guarantees and deposits. Personal lending (including credit cards and overdrafts) is predominantly unsecured. If we take security, then it is restricted to eligible vehicles, motor homes and other assets.
Loans – business	Business loans may be secured, partially secured or unsecured. Typically, we take security by way of a mortgage over property and/or a charge over the business or other assets. If appropriate, we may take other security to mitigate the credit risk, for example: guarantees, standby letters of credit or derivative protection.
Other financial assets	
Trading securities, Available-for-sale assets, Derivatives and Other financial assets	For trading securities, we do not seek collateral directly from the issuer or counterparty. However, the collateral may be implicit in the terms of the instrument (for example, with an asset-backed security). The terms of debt securities may include collateralisation. For derivatives, we typically terminate all contracts with the counterparty and settle on a net basis at market levels current at the time of a counterparty default under International Swaps and Derivatives Association (ISDA) Master Agreements. Our preferred practice is to use a Credit Support Annex (CSA) to the ISDA so that open derivative positions with the counterparty are aggregated and cash collateral (or other forms of eligible collateral) is exchanged daily. The collateral is provided by the counterparty when their position is out of the money (or provided to the counterparty by the Banking Group when our position is out of the money).
Off-balance sheet positions	
Undrawn and contingent liabilities	Collateral for off balance sheet positions is mainly held against undrawn facilities, and they are typically performance bonds on guarantees. Undrawn facilities that are secured include housing loans secured by mortgages over residential property and business lending secured by commercial real estate and/or charges over business assets.

The table below shows the estimated value of collateral we hold and the net unsecured portion of credit exposures:

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Net loans and advances[1]	**126,537**	120,623	**117,337**	110,914	**9,200**	9,709
Other financial assets[1]	**27,902**	28,736	**2,029**	1,617	**25,873**	27,119
Off-balance sheet positions	**30,034**	29,293	**15,124**	14,526	**14,910**	14,767
Total	**184,473**	178,652	**134,490**	127,057	**49,983**	51,595

1 Including items reclassified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Market risk stems from the Banking Group's trading and balance sheet management activities, the impact of changes and correlation between interest rates, foreign exchange rates, credit spreads and volatility in bond, commodity or equity prices.

The BRC delegates responsibility for day-to-day management of both market risks and compliance with market risk policies to the Bank's Asset & Liability Committee (ALCO).

Within overall strategies and policies established by the BRC, business units and risk management have joint responsibility for the control of market risk at the Banking Group level. The Market Risk team (a specialist risk management unit independent of the business) allocates market risk limits at various levels and monitors and reports on them daily. This detailed framework allocates individual limits to manage and control exposures using risk factors and profit and loss limits.

Management, measurement and reporting of market risk is undertaken in two broad categories:

Traded Market Risk	Non-Traded Market Risk
Risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Principal risk categories monitored are: 1. Currency risk – potential loss arising from changes in foreign exchange rates or their implied volatilities. 2. Interest rate risk – potential loss from changes in market interest rates or their implied volatilities. 3. Credit spread risk – potential loss arising from a movement in margin or spread relative to a benchmark. 4. Commodity risk – potential loss arising from changes in commodity prices or their implied volatilities. 5. Equity risk – potential loss arising from changes in equity prices.	Risk of loss associated with the management of non-traded interest rate risk, liquidity risk and foreign exchange exposures. This includes interest rate risk in the banking book. This risk of loss arises from adverse changes in the overall and relative level of interest rates for different tenors, differences in the actual versus expected net interest margin, and the potential valuation risk associated with embedded options in financial instruments and bank products.

MEASUREMENT OF MARKET RISK

We primarily manage and control market risk using Value at Risk (VaR), sensitivity analysis and stress testing.

VaR gauges the Banking Group's possible daily loss based on historical market movements.

The Banking Group's VaR approach for both traded and non-traded risk is historical simulation. We use historical changes in market rates, prices and volatilities over:

- the previous 500 business days, to calculate standard VaR, and
- a 1-year stressed period, to calculate stressed VaR.

We calculate traded and non-traded VaR using one-day and ten-day holding periods. For stressed VaR, we use a ten-day period. Back testing is used to ensure our VaR models remain accurate.

The Banking Group measures VaR at a 99% confidence interval which means there is a 99% chance that a loss will not exceed the VaR on any given day.

15. FINANCIAL RISK MANAGEMENT (continued)

TRADED AND NON-TRADED MARKET RISK

Traded market risk

The table below shows the traded market risk VaR on a diversified basis by risk categories:

	30 September 2018				30 September 2017			
	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m
Traded value at risk 99% confidence								
Foreign exchange risk	**0.5**	**1.6**	**0.2**	**0.7**	0.1	1.2	0.1	0.4
Interest rate risk	**1.4**	**3.6**	**0.8**	**1.9**	3.0	5.8	1.3	2.5
Credit spread risk	**0.5**	**0.8**	**0.3**	**0.5**	0.6	0.8	0.4	0.6
Diversification benefit[1]	**(1.0)**	**n/a**	**n/a**	**(0.9)**	(0.9)	n/a	n/a	(0.9)
Total VaR	**1.4**	**4.0**	**1.0**	**2.2**	2.8	5.3	1.4	2.6

1. The diversification benefit reflects risks that offset across categories. The high and low VaR figures reported for each factor did not necessarily occur on the same day as the high and low VaR reported for the Banking Group as a whole. Consequently, a diversification benefit for high and low would not be meaningful and is therefore omitted from the table.

Non-traded market risk

Balance sheet risk management

The principal objectives of balance sheet risk management are to maintain acceptable levels of interest rate and liquidity risk to mitigate the negative impact of movements in interest rates on the earnings and market value of the Banking Group's banking book, while ensuring the Banking Group maintains sufficient liquidity to meet its obligations as they fall due.

Interest rate risk management

Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the Banking Group's future net interest income. This risk arises from two principal sources, namely mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets. Interest rate risk is reported using VaR and scenario analysis (based on the impact of a 1% rate shock). The table below shows VaR figures for non-traded interest rate risk for the Banking Group.

	30 September 2018				30 September 2017			
	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m
Non-traded value at risk 99% confidence								
Total VaR	**8.0**	**10.2**	**6.4**	**7.8**	8.3	10.2	7.3	8.2

We undertake scenario analysis to stress test the impact of extreme events on the Banking Group's market risk exposures. We model a 1% overnight parallel positive shift in the yield curve to determine the potential impact on our net interest income over the next 12 months. This is a standard risk measure which assumes the parallel shift is reflected in all wholesale and customer rates.

The table below shows the outcome of this risk measure for the current and previous financial years, expressed as a percentage of reported net interest income. A positive number signifies that a rate increase is positive for net interest income over the next 12 months.

	2018	2017
Impact of 1% rate shock		
As at period end	**-0.4%**	0.6%
Maximum exposure	**0.9%**	0.9%
Minimum exposure	**-1.2%**	-0.3%
Average exposure (in absolute terms)	**0.0%**	0.4%

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

Where it is considered appropriate, the Banking Group takes out economic hedges against larger foreign exchange denominated revenue streams (primarily Australian Dollar, US Dollar and US Dollar correlated). The primary objective of hedging is to ensure that, if practical, the consolidated capital ratios are neutral to the effect of changes in exchange rates. During the current and prior years, we had selective hedges in place. Further detail on the Banking Group's hedging relationships is disclosed in Note 9 Derivative Financial Instruments.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Liquidity risk is the risk that the Banking Group is either:

- unable to meet its payment obligations (including repaying depositors or maturing wholesale debt) when they fall due; or
- does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.

Management of liquidity and funding is overseen by ALCO. The Banking Group's liquidity and funding risks are governed by a set of principles approved by the Risk Committees of the Bank's and Ultimate Parent Bank's Boards and include:

- maintaining the ability to meet all payment obligations in the immediate term;
- ensuring that the Banking Group has the ability to meet 'survival horizons' under Banking Group specific and general market liquidity stress scenarios to meet cash flow obligations over the short to medium term;
- maintaining strength in the Banking Group's balance sheet structure to ensure long term resilience in the liquidity and funding risk profile;
- ensuring the liquidity management framework is compatible with local regulatory requirements;
- preparing daily liquidity reports and scenario analysis to quantify the Banking Group's positions;
- targeting a diversified funding base to avoid undue concentrations by investor type, maturity, market source and currency;
- holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations; and
- establishing a detailed contingency plan to cover different liquidity crisis events.

KEY AREAS OF MEASUREMENT FOR LIQUIDITY RISK

Supervision and regulation

RBNZ requires the Bank to have a comprehensive Board approved liquidity strategy defining: policy, systems and procedures for measuring, assessing, reporting and managing liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis. The Banking Group is required to meet one week and one month liquidity mismatch ratios and a one year core funding ratio each day.

Scenario modelling

A key component of the Banking Group's liquidity management framework is scenario modelling.

Potential severe liquidity crisis scenarios which model the behaviour of cash flows where there is a problem (real or perceived) may include, but are not limited to, operational issues, doubts about the solvency of the Banking Group, or adverse rating changes. Under these scenarios the Banking Group may have significant difficulty rolling over or replacing funding. The Banking Group's liquidity policy requires sufficient high quality liquid assets to be held to meet its liquidity needs for the following 30 calendar days under the modelled scenarios.

As of 30 September 2018 the Banking Group was in compliance with the above scenarios.

Structural balance sheet metrics

The Banking Group's liquidity management framework also encompasses structural balance sheet metrics such as the RBNZ core funding ratio. These metrics are designed to limit the amount of funding required to be rolled over within a 1 year timeframe and so interact with the liquidity scenarios to maintain the Banking Group's liquidity position.

Wholesale funding

The Banking Group's wholesale funding strategy is designed to deliver a sustainable portfolio of wholesale funds that balances cost efficiency while targeting diversification by markets, investors, currencies, maturities and funding structures. Short-term wholesale funding requirements, with a contractual maturity of less than one year, are managed through Treasury and Markets operations. Long-term wholesale funding is managed and executed through Treasury operations.

The Banking Group also uses maturity concentration limits under the wholesale funding and liquidity management framework. Maturity concentration limits ensure that the Banking Group is not required to issue large volumes of new wholesale funding within a short time period to replace maturing wholesale funding. Funding instruments used to meet the wholesale borrowing requirement must be on a pre-established list of approved products.

Funding capacity and debt issuance planning

The Banking Group adopts a conservative approach to determine its funding capacity. Annually, a funding plan is approved by the Bank's Board. The plan is supplemented by regular updates and is linked to the Banking Group's three year strategic planning cycle.

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY PORTFOLIO MANAGEMENT

The Banking Group holds a diversified portfolio of cash and high quality highly liquid securities to support liquidity risk management. The size of the Banking Group's liquidity portfolio is based on the amount required to meet the requirements of its internal and regulatory liquidity scenario metrics.

Total liquidity portfolio

	2018 NZ$m	2017 NZ$m
Cash and balances with central banks	**2,026**	2,102
Certificates of deposit	**179**	59
Central and local government bonds	**7,528**	6,609
Government treasury bills	**794**	775
Reserve Bank bills	**50**	-
Other bonds	**5,493**	6,390
Total liquidity portfolio	**16,070**	15,935

Assets held for managing liquidity risk include short term cash held with RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated NZ domestic corporates. These assets would be accepted as collateral by RBNZ in repurchase transactions. At 30 September 2018 the Banking Group would be eligible to enter into repurchase transactions with a value of NZ$14,044 million. The Banking Group also held unencumbered internal residential mortgage backed securities (RMBS) which would entitle the Banking Group to enter into repurchase transactions with a value of NZ$7,060 million at 30 September 2018.

Liquidity crisis contingency planning

The Banking Group maintains a liquidity crisis contingency plan to define an approach for analysing and responding to a liquidity-threatening event on a group wide basis. The framework includes:

- the establishment of crisis severity/stress levels;
- clearly assigned crisis roles and responsibilities;
- early warning signals indicative of an approaching crisis, and mechanisms to monitor and report these signals;
- outlined action plans, and courses of action for altering asset and liability behaviour;
- procedures for crisis management reporting, and covering cash-flow shortfalls; and
- assigned responsibilities for internal and external communications.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

FUNDING POSITION

The Banking Group actively uses balance sheet disciplines to prudently manage the funding mix. The Banking Group employs funding metrics to ensure that an appropriate proportion of its assets are funded from stable sources, including customer liabilities, longer-dated wholesale debt (with remaining term exceeding one year) and equity.

Analysis of funding liabilities by industry is based on ANZSIC codes. The significant categories shown are the level one New Zealand Standard Industry Output Categories (NZSIOC).

	Note	2018 NZ$m	2017 NZ$m
Funding composition			
Customer deposits[1]	13	104,055	96,829
Wholesale funding			
Debt issuances		25,135	24,606
Certificates of deposit and commercial paper		3,396	5,637
Other borrowings		557	230
Total wholesale funding		29,088	30,473
Total funding		133,143	127,302
Customer deposits by industry - New Zealand residents			
Agriculture, forestry and fishing		3,763	3,487
Manufacturing		2,335	2,024
Construction		2,050	1,851
Wholesale trade		1,571	1,433
Retail trade and accommodation		1,484	1,516
Financial and insurance services		10,661	8,996
Rental, hiring and real estate services		2,878	2,596
Professional, scientific, technical, administrative and support services		5,126	5,034
Public administration and safety		1,572	1,261
Arts, recreation and other services		2,027	1,928
Households		56,640	53,222
All other New Zealand residents[2]		3,556	3,483
		93,663	86,831
Customer deposits by industry - overseas			
Households		9,876	9,461
All other non-NZ residents		516	537
		10,392	9,998
Total customer deposits		104,055	96,829
Wholesale funding (financial and insurance services industry)			
New Zealand		8,082	9,134
Overseas		21,006	21,339
Total wholesale funding		29,088	30,473
Total funding		133,143	127,302
Concentrations of funding by geography			
New Zealand		101,745	95,965
Australia		739	796
United States		13,671	13,471
Europe		9,618	9,784
Other countries		7,370	7,286
Total funding		133,143	127,302

1 Including items reclassified as held for sale.
2 Other includes mining; electricity, gas, water and waste services; transport, postal and warehousing; information media and telecommunications; education and training; health care and social assistance.

15. FINANCIAL RISK MANAGEMENT (continued)

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF FINANCIAL OF THE BANKING GROUP'S LIABILITIES

The table below provides residual contractual maturity analysis of financial liabilities at 30 September 2018 within relevant maturity groupings. All outstanding debt issuances are profiled on the earliest date on which the Banking Group may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reported on the balance sheet.

It should be noted that this is not how the Banking Group manages its liquidity risk.

2018	On demand NZ$m	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
Settlement balances owed by the Banking Group	1,338	837	-	-	-	2,175
Collateral received	-	845	-	-	-	845
Deposits and other borrowings[1]	52,016	25,701	27,008	4,854	-	109,579
Derivative financial liabilities (trading)	-	6,147	-	-	-	6,147
Debt issuances[2]	-	930	3,676	17,810	4,596	27,012
Other financial liabilities[1]	-	119	7	44	76	246
Derivative financial instruments (balance sheet management)						
- gross inflows	-	1,790	2,033	9,080	1,266	14,169
- gross outflows	-	(1,998)	(2,218)	(9,368)	(1,179)	(14,763)

2017	On demand NZ$m	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
Settlement balances owed by the Banking Group	1,165	685	-	-	-	1,850
Collateral received	-	613	-	-	-	613
Deposits and other borrowings[1]	58,287	24,814	24,320	4,504	-	111,925
Derivative financial liabilities (trading)	-	8,057	-	-	-	8,057
Debt issuances[2]	-	1,604	2,950	16,496	5,424	26,474
Other financial liabilities[1]	-	155	6	56	144	361
Derivative financial instruments (balance sheet management)						
- gross inflows	-	2,082	2,300	8,128	2,867	15,377
- gross outflows	-	(2,235)	(2,433)	(8,328)	(2,741)	(15,737)

1 Including items reclassified as held for sale.
2 Any callable wholesale debt instruments have been included at their next call date. Refer to Note 14 Debt Issuances for subordinated debt call dates.

At 30 September 2018, NZ$93 million (2017: NZ$88 million) of the Banking Group's non-credit related commitments and NZ$30,105 million (2017: NZ$29,377 million) of its credit related commitments and contingent liabilities mature in less than 1 year, based on the earliest date on which the Banking Group may be required to pay.

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Banking Group carries a significant number of financial instruments on the balance sheet at fair value. The fair value of a financial instrument is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

VALUATION OF FINANCIAL INSTRUMENTS

The Banking Group has an established control framework, including an appropriate segregation of duties, to ensure that fair values are accurately determined, reported and controlled. The framework includes the following features:

- products are approved for transacting with external customers and counterparties only where fair values can be appropriately determined;
- quoted market prices used to value financial instruments are independently verified with information from external pricing providers;
- fair value methodologies and inputs are evaluated and approved by a function independent of the party that undertakes the transaction;
- movements in fair values are independently monitored and explained by reference to underlying factors relevant to the fair value; and
- valuation adjustments (such as FVA, CVA and bid-offer) are independently validated and monitored.

If the Banking Group holds offsetting risk positions, then the Banking Group uses the portfolio exemption in NZ IFRS 13 *Fair Value Measurement* (NZ IFRS 13) to measure the fair value of such groups of financial assets and financial liabilities. We measure the portfolio based on the price that would be received to sell a net long position (an asset) for a particular risk exposure, or to transfer a net short position (a liability) for a particular risk exposure.

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

We use valuation techniques to estimate the fair value of financial assets and liabilities for recognition, measurement and disclosure purposes where no quoted price in an active market exists for that asset or liability. This includes the following:

Asset or Liability	Fair Value Approach
Financial instruments classified as: - Trading securities - Derivative financial assets and liabilities - Available-for-sale assets	Valuation techniques are used that incorporate observable market inputs for financial instruments with similar credit risk, maturity and yield characteristics.
Financial instruments classified as: - Net loans and advances - Deposits and other borrowings - Debt issuances	Discounted cash flow techniques in which contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates, or market borrowing rates, for debt with similar maturities or with a yield curve appropriate for the remaining term to maturity.

CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The following tables set out the classification of financial asset and liability categories according to measurement bases together with the carrying amounts as reported on the balance sheet.

		2018			2017		
	Fair value details refer to Note	At amortised cost NZ$m	At fair value NZ$m	Total NZ$m	At amortised cost NZ$m	At fair value NZ$m	Total NZ$m
Financial assets							
Cash and cash equivalents		2,200	-	2,200	2,338	-	2,338
Settlement balances owed to the Banking Group		656	-	656	536	-	536
Collateral paid		1,919	-	1,919	1,415	-	1,415
Trading securities	8	-	8,024	8,024	-	7,663	7,663
Derivative financial instruments	9	-	8,086	8,086	-	9,878	9,878
Available-for-sale assets	10	-	6,502	6,502	-	6,360	6,360
Net loans and advances[1]		126,466	-	126,466	120,539	-	120,539
Other financial assets[1]		592	127	719	621	123	744
Total		131,833	22,739	154,572	125,449	24,024	149,473
Financial liabilities							
Settlement balances owed by the Banking Group		2,161	-	2,161	1,840	-	1,840
Collateral received		845	-	845	613	-	613
Deposits and other borrowings[1]	13	105,522	2,486	108,008	98,975	3,721	102,696
Derivative financial instruments	9	-	8,095	8,095	-	9,826	9,826
Debt issuances		25,135	-	25,135	24,606	-	24,606
Other financial liabilities[1]		576	110	686	608	151	759
Total		134,239	10,691	144,930	126,642	13,698	140,340

[1] Including items reclassified as held for sale.

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE ON THE BALANCE SHEET

The Banking Group categorises financial assets and liabilities carried at fair value into a fair value hierarchy as required by NZ IFRS 13 based on the observability of inputs used to measure fair value:

- Level 1 – valuations based on quoted prices (unadjusted) in active markets for identical financial instruments;
- Level 2 – valuations using inputs other than quoted prices included within Level 1 that are observable for a similar financial asset or liability, either directly or indirectly; and
- Level 3 – valuations using inputs for the assets or liability that are not based on observable market data (unobservable inputs).

The table below summarises the attribution of financial instruments carried at fair value to the fair value hierarchy:

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Assets								
Trading securities	6,795	7,276	1,229	387	-	-	8,024	7,663
Derivative financial instruments	7	5	8,076	9,870	3	3	8,086	9,878
Available-for-sale assets	6,457	5,336	44	1,023	1	1	6,502	6,360
Investments backing insurance contract liabilities[1]	-	-	127	123	-	-	127	123
Total	13,259	12,617	9,476	11,403	4	4	22,739	24,024
Liabilities								
Deposits and other borrowings[1]	-	-	2,486	3,721	-	-	2,486	3,721
Derivative financial instruments	10	24	8,084	9,801	1	1	8,095	9,826
Other financial liabilities	110	151	-	-	-	-	110	151
Total	120	175	10,570	13,522	1	1	10,691	13,698

[1] Including items reclassified as held for sale.

Fair value designation

We designate commercial paper (included in deposits and other borrowings) as fair value through profit or loss where they are managed on a fair value basis to align the measurement with how the instruments are managed.

NOTES TO THE FINANCIAL STATEMENTS

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

The following sets out the Banking Group's basis of estimating fair values of the above financial instruments carried at amortised cost:

Financial Asset and Liability	Fair Value Approach
Net loans and advances to banks	Discounted cash flows using prevailing market rates for loans with similar credit quality.
Net loans and advances to customers	Present value of future cash flows, discounted using a curve that incorporates changes in wholesale market rates, the Banking Group cost of wholesale funding and the customer margin, as appropriate.
Deposit liability without a specified maturity or at call	The amount payable on demand at the reporting date. We do not adjust the fair value for any value we expect the Banking Group to derive from retaining the deposit for a future period.
Interest bearing fixed maturity deposits and other borrowings and acceptances with quoted market rates	Market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows to derive the fair value.
Debt issuances	Calculated based on quoted market prices or observable inputs as applicable. If quoted market prices are not available, we use a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument. The fair value reflects adjustments to credit spreads applicable to the Banking Group for that instrument.

The financial assets and financial liabilities listed in the table below are carried at amortised cost on the Banking Group's Balance Sheet. While this is the value at which we expect the assets will be realised and the liabilities settled, the Banking Group provides an estimate of the fair value of the financial assets and financial liabilities at balance date in the table below.

	Carrying amount		Categorised into fair value hierarchy						Fair value (total)	
			Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)			
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Financial assets										
Net loans and advances[1, 2]	126,466	120,539	-	-	131	136	126,614	120,452	126,745	120,588
Total	126,466	120,539	-	-	131	136	126,614	120,452	126,745	120,588
Financial liabilities										
Deposits and other borrowings[1]	105,522	98,975	-	-	105,592	99,030	-	-	105,592	99,030
Debt issuances	25,135	24,606	2,533	2,855	22,929	22,163	-	-	25,462	25,018
Total	130,657	123,581	2,533	2,855	128,521	121,193	-	-	131,054	124,048

1 Including items reclassified as held for sale.
2 We have reviewed the fair value of Net Loans and advances previously presented as Level 2. In line with broader industry practice Net loans and advances other than Loans to Banks are now presented as Level 3.

KEY JUDGEMENTS AND ESTIMATES

The Banking Group evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and financial liabilities at the balance sheet date.

The majority of valuation models the Banking Group uses employ only observable market data as inputs. However, for certain financial instruments, we may use data that is not readily observable in current markets. If we use unobservable market data, then we need to exercise more judgement to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, we derive unobservable inputs from other relevant market data and compare them to observed transaction prices where available.

When establishing the fair value of a financial instrument using a valuation technique, the Banking Group considers valuation adjustments in determining the fair value. We may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments – refer Note 9 Derivative Financial Instruments) to the techniques used to reflect the Banking Group's assessment of factors that market participants would consider in setting fair value.

17. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The following disclosure excludes the amounts presented as collateral paid and received in the Balance Sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of those collateral agreements are included in the standard Credit Support Annex that forms part of the International Swaps and Derivatives Association Master Agreement.

ASSETS CHARGED AS SECURITY FOR LIABILITIES

Assets charged as security for liabilities include the following types of instruments:

- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements.
- UDC Secured Investments are secured by a security interest granted under a trust deed over all of UDC's present and future assets and undertakings, to Trustees Executors Limited, as supervisor. The assets subject to the security interest comprise mainly loans to UDC's customers and certain plant and equipment. The security interest secures all amounts payable by UDC on the UDC Secured Investments and all other monies payable by UDC under the trust deed.
- Specified residential mortgages provided as security for notes and bonds issued to investors as part of the Banking Group's covered bond programmes.

The carrying amounts of assets pledged as security are as follows:

	2018 NZ$m	2017 NZ$m
Securities sold under agreements to repurchase[1]	**517**	157
Assets pledged as collateral for UDC secured investments	**3,296**	2,985
Residential mortgages pledged as security for covered bonds	**10,747**	10,595

[1] The amounts disclosed as securities sold under arrangements to repurchase include both:
- assets pledged as security which continue to be recognised on the Banking Group's balance sheet; and
- assets repledged, which are included in the disclosure below.

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The Banking Group has received collateral associated with various financial instruments. Under certain transactions the Banking Group has the right to sell, or to repledge, the collateral received. These transactions are governed by standard industry agreements.

The fair value of collateral we have received and that we have sold or repledged is as follows:

	2018 NZ$m	2017 NZ$m
Fair value of assets which can be sold or repledged	**139**	361
Fair value of assets sold or repledged	**34**	218

NOTES TO THE FINANCIAL STATEMENTS

18. OFFSETTING

We offset financial assets and financial liabilities in the balance sheet (in accordance with NZ IAS 32 *Financial Instruments: Presentation*) when there is:

- a current legally enforceable right to set off the recognised amounts in all circumstances; and
- an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

If the above conditions are not met, the financial assets and financial liabilities are presented on a gross basis.

The Banking Group does not have any arrangements that satisfy the conditions necessary to offset financial assets and financial liabilities within the balance sheet. The following table identifies financial assets and financial liabilities which have not been offset but are subject to enforceable master netting agreements (or similar arrangements) and the related amounts not offset in the balance sheet. We have not taken into account the effect of over collateralisation.

			Amount subject to master netting agreement or similar			
2018	Total amounts recognised in the Balance Sheet NZ$m	Amounts not subject to master netting agreement or similar NZ$m	Total NZ$m	Financial instruments NZ$m	Financial collateral (received)/ pledged NZ$m	Net amount NZ$m
Derivative financial instruments	8,086	(1,029)	7,057	(5,711)	(481)	865
Reverse repurchase agreements[1]	136	-	136	-	(136)	-
Total financial assets	8,222	(1,029)	7,193	(5,711)	(617)	865
Derivative financial instruments	(8,095)	694	(7,401)	5,711	563	(1,127)
Repurchase agreements[2]	(517)	-	(517)	-	517	-
Total financial liabilities	(8,612)	694	(7,918)	5,711	1,080	(1,127)

			Amount subject to master netting agreement or similar			
2017	Total amounts recognised in the Balance Sheet NZ$m	Amounts not subject to master netting agreement or similar NZ$m	Total NZ$m	Financial instruments NZ$m	Financial collateral (received)/ pledged NZ$m	Net amount NZ$m
Derivative financial instruments	9,878	(1,933)	7,945	(7,478)	(245)	222
Reverse repurchase agreements[1]	360	-	360	-	(360)	-
Total financial assets	10,238	(1,933)	8,305	(7,478)	(605)	222
Derivative financial instruments	(9,826)	1,386	(8,440)	7,478	348	(614)
Repurchase agreements[2]	(157)	-	(157)	-	157	-
Total financial liabilities	(9,983)	1,386	(8,597)	7,478	505	(614)

1 Reverse repurchase agreements are presented in the Balance Sheet within cash and cash equivalents.
2 Repurchase agreements are presented in the Balance Sheet within deposits and other borrowings.

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	Note	2018 NZ$m	2017 NZ$m
Goodwill		3,230	3,230
Software		53	67
Other intangibles		107	111
Goodwill and other intangible assets (including assets reclassified as held for sale)		3,390	3,408
Less: Goodwill and other intangible assets reclassified as held for sale	25	(101)	(133)
Goodwill and other intangible assets		3,289	3,275

GOODWILL ALLOCATED TO CASH-GENERATING UNITS (CGUs)

An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purposes of impairment testing, goodwill is allocated at the date of acquisition to a CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount.

To estimate the recoverable amount of the CGU to which each goodwill component is allocated, we use a value-in-use approach.

VALUE-IN-USE

These calculations use cash flow projections based on a number of financial budgets within each segment approved by management covering a three year period. Cash flow projections are based on a range of readily available economic assumptions including Gross Domestic Product (GDP) and the Consumer Price Index (CPI). Cash flows beyond the three year period are extrapolated using a 3% growth rate.

These cash flow projections are discounted using a capital asset pricing model. As at 28 February 2018 when the last valuation was prepared, a discount rate of 11.4% was applied to each cash generating unit. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each segment.

Management believes any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of goodwill for any CGU to exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

RECOGNITION AND MEASUREMENT

The table below details how we recognise and measure different intangible assets:

Intangible	Goodwill	Software	Other Intangible Assets
Definition	Excess amount the Banking Group has paid in acquiring a business over the fair value less costs of disposal of the identifiable assets and liabilities acquired.	Purchases of off the shelf software assets are capitalised as assets. Internal and external costs incurred in building software and computer systems costing greater than NZ$20 million are capitalised as assets. Those less than NZ$20 million are expensed in the year in which the costs are incurred.	Acquired portfolios of insurance and investment business and management fee rights.
Carrying value	Cost less any accumulated impairment losses. Allocated to the cash generating unit to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised.	Initially, measured at fair value at acquisition. Subsequently, carried at fair value less accumulated amortisation and impairment losses.
Useful life	Indefinite. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment.	Except for major core infrastructure, amortised over periods between 3-5 years. Major core infrastructure amortised over periods between 7 or 10 years.	Acquired portfolios of insurance and investment business are amortised over 20 years. Management fee rights have an indefinite life and are reviewed for impairment at least annually or when there is an indication of impairment.
Depreciation method	Not applicable.	Straight-line method.	Actuarial methods consistent with the calculation of life insurance contract assets.

KEY JUDGEMENTS AND ESTIMATES

Management judgement is used to assess the recoverable value of goodwill, and other intangible assets, and the useful economic life of an asset (or if an asset has an indefinite life). We reassess the recoverability of the carrying value at each reporting date.

The carrying amount of goodwill is based on judgements including the basis of assumptions and forecasts used for determining earnings for CGUs, headroom availability, and sensitivities of the forecasts to reasonably possible changes in assumptions. Goodwill is assessed for indicators of impairment quarterly and tested for impairment annually. The level at which goodwill is allocated, the estimation of future cash flows and the selection of discount rates or earnings multiples applied requires significant judgement.

At each balance date, software and other intangible assets are assessed for indicators of impairment. In addition, software and intangible assets not ready for use are tested annually for impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the carrying value of the asset is written down immediately.

In addition, the expected useful life of intangible assets, including software assets, are assessed on an annual basis. The assessment requires management judgement, and in relation to our software assets, a number of factors can influence the expected economic useful lives. These factors include changes to business strategy, significant divestments and the underlying pace of technological change.

20. SHAREHOLDERS' EQUITY

	Number of issued shares		NZ$ millions	
	2018	2017	2018	2017
Ordinary shares				
Ordinary shares at start of year	3,345,755,498	3,345,755,498	8,588	8,588
Ordinary shares issued during the year	3,000,000,000	-	3,000	-
Ordinary shares at end of year[1]	6,345,755,498	3,345,755,498	11,588	8,588
Preference shares	300,000,000	300,000,000	300	300
Total share capital	6,645,755,498	3,645,755,498	11,888	8,888

[1] Includes 650,712 (2017: 650,712) uncalled shares.

Preference shares

The key terms of the preference shares are as follows:

Dividends

Dividends are payable at the discretion of the directors of the Bank and are non-cumulative. The Bank must not resolve to pay any dividend or make any other distribution on its ordinary shares until the next preference dividend payment date if the dividend on the preference shares is not paid.

Should the Bank elect to pay a dividend, the dividend is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 325 basis point margin, multiplied by one minus the New Zealand company tax rate, with dividend payments due on 1 March and 1 September each year.

Redemption features

The preference shares are redeemable, subject to prior written approval of RBNZ, by the Bank providing notice in writing to holders of the preference shares:

- on any date on or after a change to laws or regulations that adversely affects the regulatory capital or tax treatment of the preference shares; or
- on any dividend payment date on or after 1 March 2019; or
- on any date after 1 March 2019 if the Bank has ceased to be a wholly owned subsidiary of the Ultimate Parent Bank.

The preference shares may be redeemed for nil consideration should a non-viability trigger event occur.

The preference shares qualify as AT1 capital for RBNZ's capital adequacy purposes.

RECOGNITION AND MEASUREMENT

Ordinary shares	Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Company, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to: • on a show of hands, one vote; and • on a poll, one vote, for each share held.
Preference shares	All preference shares were issued by the Bank to the Immediate Parent and do not carry any voting rights. The preference shares are wholly classified as equity instruments as there is no contractual obligation for the Bank to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavourable basis. In the event of liquidation, holders of preference shares are entitled to available subscribed capital per share, pari passu with all holders of existing preference shares and ANZ capital notes but in priority to all holders of ordinary shares. They have no entitlement to participate in further distribution of profits or assets.
Reserves:	
Cash flow hedge reserve	Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments, net of deferred taxes to be realised when the position is settled.
Available-for-sale reserve	Includes the changes in fair value and exchange differences on our revaluation of available-for-sale financial assets, net of deferred taxes to be realised upon disposal of the asset.

NOTES TO THE FINANCIAL STATEMENTS

21. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

The Banking Group's core capital objectives are to:

- protect the interests of depositors, creditors and shareholders;
- ensure the safety and soundness of the Banking Group's capital position; and
- ensure that the capital base supports the Banking Group's risk appetite, and strategic business objectives, in an efficient and effective manner.

The Board holds ultimate responsibility for ensuring that capital adequacy is maintained. This includes: setting, monitoring and obtaining assurance for the Banking Group's Internal Capital Adequacy Assessment Process (ICAAP) policy and framework; standardised risk definitions for all material risks; materiality thresholds; capital adequacy targets; internal economic risk capital principles; and risk appetite.

The Banking Group has minimum and trigger levels for common equity tier 1, tier 1 and total capital that ensure sufficient capital is maintained to:

- meet minimum prudential requirements imposed by regulators;
- ensure consistency with the Banking Group's overall risk profile and financial positions, taking into account its strategic focus and business plan; and
- support the economic risk capital requirements of the business.

ALCO and its related Capital Management Forum are responsible for developing, implementing and maintaining the Banking Group's ICAAP framework, including ongoing monitoring, reporting and compliance. The Banking Group's ICAAP is subject to independent and periodic review conducted by Internal Audit.

The Banking Group complied with all the regulatory Capital Adequacy requirements during the current and prior years.

REGULATORY ENVIRONMENT

As the Bank is a registered bank in New Zealand, it is primarily regulated by RBNZ under the Reserve Bank of New Zealand Act 1989. The Bank must comply with the minimum regulatory capital requirements, capital ratios and specific reporting levels that RBNZ sets. RBNZ requirements are summarised below:

	Regulatory capital definition	Minimum capital ratios
Common Equity Tier 1 (CET1) capital	Comprises ordinary share capital, retained earnings, and certain accounting reserves. Some amounts (e.g. the value of goodwill) must be deducted to determine the final value of CET1 capital.	CET1 capital divided by total risk weighted assets must be at least 4.5%.
Tier 1 capital	CET1 capital plus additional tier 1 instruments, which comprise high-quality capital and must: • provide a permanent and unrestricted commitment of funds; • be freely available to absorb losses; and provide for fully discretionary capital distributions.	Tier 1 capital divided by total risk weighted assets must be at least 6.0%.
Tier 2 capital	Tier 2 instruments include some subordinated instruments and accounting reserves that are not included in Tier 1 capital. Some amounts are deducted in determining the value of Tier 2 instruments.	No minimum.
Total capital	Tier 1 plus Tier 2 capital.	Total capital divided by total risk weighted assets must be at least 8.0%.
Capital buffer	The Capital buffer is actual CET1 capital in excess of any of the minimum capital requirements imposed on the Bank.	Capital buffer divided by total risk weighted assets should be at least 2.5%.

	Reporting levels
Solo consolidated	The registered bank plus subsidiaries which are funded exclusively and wholly owned by the registered bank.
Banking Group	The registered bank's consolidated group.

The Bank measures capital adequacy and reports to RBNZ on a Banking Group basis monthly, and measures capital adequacy on a Solo consolidated basis quarterly. Banking Group and Solo consolidated capital ratios are reported publicly in six-monthly disclosure statements.

21. CAPITAL MANAGEMENT (continued)

CAPITAL ADEQUACY

The following table provides details of the Banking Group's capital ratios at 30 September:

Unaudited	2018 NZ$m	2017 NZ$m
Qualifying capital		
Tier 1		
Shareholder's equity	13,109	12,781
Preference shares included in Additional Tier 1 capital	(300)	(300)
Gross Common Equity Tier 1 capital	12,809	12,481
Deductions	(3,728)	(3,754)
Common Equity Tier 1 capital	9,081	8,727
Additional tier 1 capital	2,776	2,778
Tier 1 capital	11,857	11,505
Tier 2 capital	-	234
Total capital	11,857	11,739
Capital adequacy ratios		
Common Equity Tier 1	11.1%	10.7%
Tier 1	14.4%	14.1%
Tier 2	0.0%	0.3%
Total	14.4%	14.4%
Buffer ratio	6.4%	6.2%
Risk weighted assets	82,147	81,642

22. CONTROLLED ENTITIES

The following table lists the principal subsidiaries of the Bank. Principal subsidiaries are those that have transactions or balances with parties outside the Banking Group. All subsidiaries are 100% owned and incorporated in New Zealand.

	Nature of business
ANZ Bank New Zealand Limited	**Registered bank**
ANZ Investment Services (New Zealand) Limited	Funds management
ANZ New Zealand (Int'l) Limited	Finance
ANZ New Zealand Investments Limited	Funds management
ANZ New Zealand Securities Limited	On-line share broker
ANZNZ Covered Bond Trust[1]	Securitisation entity
Arawata Assets Limited	Property
Karapiro Investments Limited	Asset finance
Kingfisher NZ Trust 2008-1[1]	Securitisation entity
OnePath Life (NZ) Limited	Insurance
UDC Finance Limited	Asset finance

1 The Banking Group does not own ANZNZ Covered Bond Trust and Kingfisher NZ Trust 2008-1. Control exists as the Banking Group retains substantially all the risks and rewards of the operations. Details of the Banking Group's interest in consolidated structured entities is included in Note 23 Structured Entities.

RECOGNITION AND MEASUREMENT

The Banking Group subsidiaries are those entities it controls through:

- being exposed to, or having rights to, variable returns from the entity; and
- being able to affect those returns through its power over the entity.

The Banking Group assesses whether it has power over those entities by examining the Banking Group's existing rights to direct the relevant activities of the entity.

NOTES TO THE FINANCIAL STATEMENTS

23. STRUCTURED ENTITIES

A Structured Entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities (being those that significantly affect the entity's returns) are directed by means of contractual arrangement. A SE often has some or all of the following features or attributes:

- restricted activities;
- a narrow and well defined objective;
- insufficient equity to permit the SE to finance its activities without subordinated financial support; and
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Banking Group is involved with both consolidated and unconsolidated SEs which may be established by the Banking Group or by a third party. SEs are classified as subsidiaries and consolidated when control exists. If the Banking Group does not control a SE, then it will not be consolidated (an unconsolidated SE). This note provides information on both consolidated and unconsolidated SEs.

The Banking Group's involvement with SEs is as follows:

Type	Details
Securitisation	The Banking Group uses the Kingfisher NZ Trust 2008-1 (the Kingfisher Trust) to securitise residential mortgages that it has originated, in order to diversify sources of funding for liquidity management. The Kingfisher Trust is an internal securitisation (bankruptcy remote) vehicle we created for the purpose of structuring assets that are eligible for repurchase under agreements with RBNZ (these are known as 'Repo eligible'). The Banking Group is exposed to variable returns from its involvement with the Kingfisher Trust and has the ability to affect those returns through its power over the Kingfisher Trust's activities. The Kingfisher Trust is therefore consolidated. As at 30 September 2018 and 30 September 2017 the Banking Group had not entered into any repurchase agreements with RBNZ for residential mortgage backed securities issued and therefore no collateral had been accepted by RBNZ under this facility. Additionally, the Banking Group may acquire interests in securitisation vehicles set up by third parties through providing lending facilities to, or holding securities issued by, such entities.
ANZNZ Covered Bond Trust (the Covered Bond Trust)	Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied. The Banking Group is exposed to variable returns from its involvement with the Covered Bond Trust and has the ability to affect those returns through its power over the Covered Bond Trust's activities. The Covered Bond Trust is therefore consolidated.
Structured finance arrangements	The Banking Group is involved with SEs established: • in connection with structured lending transactions to facilitate debt syndication and/or to ring-fence collateral; and • to own assets that are leased to customers in structured leasing transactions. The Banking Group may provide risk management products (derivatives) to the SE. In all instances, the Banking Group does not control these SEs. Further, the Banking Group's involvement does not establish more than a passive interest in decisions about the relevant activities of the SE, and accordingly we do not consider that interest disclosable.
Funds management activities	The Banking Group is the scheme manager for a number of Managed Investment Schemes (MIS). These MIS include the ANZ and OneAnswer branded KiwiSaver, retail and wholesale schemes and the Bonus Bonds Scheme, and are considered to be SEs.

CONSOLIDATED STRUCTURED ENTITIES

Financial or Other Support Provided to Consolidated Structured Entities

The Bank provides lending facilities, derivatives and commitments to the Kingfisher Trust and the Covered Bond Trust and/or holds debt instruments that they have issued. The Bank did not provide any non-contractual support to consolidated SEs during the year (2017: nil).

23. STRUCTURED ENTITIES (continued)

UNCONSOLIDATED STRUCTURED ENTITIES

The Banking Group's Interest in Unconsolidated Structured Entities

An 'interest' in an unconsolidated SE is any form of contractual or non-contractual involvement with an SE that exposes the Banking Group to variability of returns from the performance of that SE. These interests include, but are not limited to: holdings of debt or equity securities; derivatives that pass on risks specific to the performance of the SE; lending; loan commitments; financial guarantees; and fees from funds management activities.

For the purpose of disclosing interests in unconsolidated SEs:

- no disclosure is made if the Banking Group's involvement is not more than a passive interest - for example: when the Banking Group's involvement constitutes a typical customer-supplier relationship. On this basis, exposures to unconsolidated SEs that arise from lending, trading and investing activities are not considered disclosable interests - unless the design of the structured entity allows the Banking Group to participate in decisions about the relevant activities (being those that significantly affect the entity's returns).
- 'interests' do not include derivatives intended to expose the Banking Group to market risk (rather than performance risk specific to the SE) or derivatives through which the Banking Group creates, rather than absorbs, variability of the unconsolidated SE (such as purchase of credit protection under a credit default swap).

The Banking Group earned funds management fees from its MIS of NZ$191 million (2017: NZ$170 million) during the year. Size of these MIS is indicated by Funds Under Management which varies by fund, with a maximum value of approximately NZ$3.3 billion (2017: NZ$3.4 billion).

The Banking Group did not provide any non-contractual support to unconsolidated SEs during the year (2017: nil): nor does it have any current intention to provide financial or other support to unconsolidated SEs.

SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES

The Banking Group may also sponsor unconsolidated SEs in which it has no disclosable interest.

For the purposes of this disclosure, the Banking Group considers itself the 'sponsor' of an unconsolidated SE if it is the primary party involved in the design and establishment of that SE and:

- the Banking Group is the major user of that SE; or
- the Banking Group's name appears in the name of that SE, or on its products; or
- the Banking Group provides implicit or explicit guarantees of that SE's performance.

The Bank has sponsored the ANZ PIE Fund, which invests only in deposits with the Bank. The Banking Group does not provide any implicit or explicit guarantees of the capital value or performance of investments in the ANZ PIE Fund. There was no income received from, nor assets transferred to, this entity during the year.

KEY JUDGEMENTS AND ESTIMATES

Significant judgement is required in assessing whether control exists over Structured Entities involved in securitisation activities, structured finance transactions and investment funds. Judgement is required in relation to the existence of:

- power over the relevant activities (being those that significantly affect the entity's returns); and
- exposure to variable returns of that entity.

24. TRANSFERS OF FINANCIAL ASSETS

In the normal course of business the Banking Group enters into transactions where it transfers financial assets directly to third parties. These transfers may give rise to the Banking Group fully, or partially, derecognising those financial assets - depending on the Banking Group's exposure to the risks and rewards or control over the transferred assets. If the Banking Group retains substantially all of the risk and rewards of a transferred asset, the transfer does not qualify for derecognition and the asset remains on the Banking Group's balance sheet in its entirety.

Covered bonds

The Banking Group operates a covered bond programme to raise funding. Refer to Note 23 Structured Entities for further details. The covered bonds issued externally are included within debt issuances.

NOTES TO THE FINANCIAL STATEMENTS

24. TRANSFERS OF FINANCIAL ASSETS (continued)

Repurchase agreements

If the Banking Group sells securities subject to repurchase agreements under which substantially all the risks and rewards of ownership remain with the Banking Group, then those assets are considered to be transferred assets that do not qualify for derecognition. An associated liability is recognised for the consideration received from the counterparty.

The table below sets out the balance of assets transferred that do not qualify for derecognition, along with the associated liabilities:

	Covered bonds		Repurchase agreements	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Current carrying amount of assets transferred	**10,747**	10,595	**517**	157
Carrying amount of associated liabilities	**3,929**	5,315	**517**	157

25. ASSETS AND LIABILITIES HELD FOR SALE

UDC

On 11 January 2017, the Bank announced that it had entered into a conditional agreement to sell UDC to HNA Group (HNA). On 21 December 2017, the Bank announced that it had been informed that the New Zealand Overseas Investment Office had declined HNA's application to acquire UDC and the agreement with HNA was terminated in January 2018. The assets and liabilities of UDC are no longer classified as held for sale as at 30 September 2018.

OnePath

On 30 May 2018, the Bank announced that it had agreed to sell OnePath to Cigna Corporation and the final regulatory approval was obtained on 29 October 2018. The transaction is subject to closing conditions and the Bank expects it to close in the 2019 financial year.

	2018 OnePath NZ$m	2017 UDC NZ$m
Net loans and advances	-	2,912
Life insurance contract assets	**662**	-
Goodwill and other intangible assets	**101**	133
Investments backing insurance contract liabilities	**127**	-
Other assets	**7**	20
Total assets held for sale	**897**	3,065
Deposits and other borrowings	-	1,039
Current tax liabilities	**16**	24
Deferred tax liabilities	**175**	(9)
Payables and other liabilities	**143**	33
Employee entitlements	-	1
Total liabilities held for sale	**334**	1,088

KEY JUDGEMENTS AND ESTIMATES

A significant level of judgement is used by the Banking Group to determine:
- whether an asset or group of assets is classified and presented as held for sale or as a discontinued operation; and
- the fair value of the assets and liabilities classified as being held for sale.

Any impairment we record is based on the best available evidence of the fair value compared to the carrying value before the impairment. The final sale price the Banking Group may achieve will depend on a number of factors and may be different to the fair value we estimate when recording the impairment. We expect that the sales will complete within 12 months after balance date, subject to the relevant regulatory approvals and customary terms of sale for such assets.

26. RELATED PARTY DISCLOSURES

Key management personnel

Key management personnel (KMP) are defined as directors and those executives who report directly to the Bank's Chief Executive Officer with responsibility for the strategic direction and management of a major revenue generating division or who control material revenue and expenses.

Loans made to directors and other KMP are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate.

All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services. All such transactions that have occurred with KMP and their related parties have been trivial or domestic in nature. In this context, transactions are only disclosed when they are considered of interest to the users of the financial statements in making and evaluating decisions about the allocation of scarce resources.

	2018 NZ$000	2017 NZ$000
Key management personnel compensation		
Salaries and short-term employee benefits	11,677	11,430
Post-employment benefits	655	480
Other long-term benefits	38	60
Share-based payments	3,308	3,515
Total	15,678	15,485
Loans to, and securities held by, key management personnel and their related parties		
Loans	7,226	5,102
Unsubordinated debt	-	520
Subordinated debt	120	190

Transactions with other related parties

The Bank and Banking Group undertake transactions with the Immediate Parent Company, the Ultimate Parent Bank, other members of the Overseas Banking Group and associates.

These transactions principally consist of funding and hedging transactions, the provision of other financial and investment services, technology and process support, and compensation for share based payments made to Banking Group employees. Transactions with related parties outside of the Banking Group are conducted on an arm's length basis and on normal commercial terms.

In addition the Bank undertakes similar transactions with subsidiaries, which are eliminated in the consolidated Banking Group financial statements. Included within the Bank's transactions with subsidiaries is the provision of administrative functions to some subsidiaries for which no payments have been made.

Transactions with related parties

	2018 NZ$m	2017 NZ$m
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Interest income	13	32
Interest expense	138	146
Fee income	9	14
Gain/(loss) on sale of mortgages to the NZ Branch	(1)	(1)
Other operating income	43	23
Operating expenses	52	46
Mortgages sold to the NZ Branch	302	481
Mortgages repurchased from the NZ Branch	1,575	736
Immediate Parent Company		
Interest expense	1	1
Ordinary shares issued	3,000	-
Dividends paid	4,611	1,695
Associates		
Direct fee expense	10	10
Dividends received	6	5
Share of associates' profit	5	5

NOTES TO THE FINANCIAL STATEMENTS

26. RELATED PARTY DISCLOSURES (continued)

Balances with related parties

	2018 NZ$m	2017 NZ$m
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Cash and cash equivalents	33	64
Settlement balances owed to the Banking Group	-	111
Derivative financial instruments	2,431	2,623
Other assets	39	42
Immediate Parent Company		
Derivative financial instruments	-	4
Associates		
Investments in associates	6	7
Total due from related parties	2,509	2,851
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Settlement balances owed by the Banking Group	125	220
Collateral received	257	198
Deposits and other borrowings	11	11
Derivative financial instruments	2,248	2,486
Payables and other liabilities	30	31
Subordinated debt	1,941	1,951
Immediate Parent Company		
Deposits and other borrowings	29	62
Derivative financial instruments	1	-
Associates		
Payables and other liabilities	1	1
Total due to related parties	4,643	4,960

Balances due from / to related parties are unsecured. The Bank has provided guarantees and commitments to related parties as follows:

	2018 NZ$m	2017 NZ$m
Financial guarantees provided to the Ultimate Parent Bank	138	155
Undrawn credit commitments provided to the Immediate Parent Company	250	250

27. COMMITMENTS AND CONTINGENT LIABILITIES

PROPERTY RELATED COMMITMENTS

	2018 NZ$m	2017 NZ$m
Property capital expenditure		
Contracts for outstanding capital expenditure (not later than 1 year)	7	4
Total capital expenditure commitments for property	7	4
Lease rentals		
Land and Buildings	331	370
Furniture and equipment	86	105
Motor vehicles	8	9
Total lease rental commitments	425	484
Due within 1 year	86	84
Due later than 1 year but not later than 5 years	224	256
Due later than 5 years	115	144
Total lease rental commitments	425	484

27. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2018 NZ$m	2017 NZ$m
Contract amount of:		
Undrawn facilities	**27,245**	26,769
Guarantees and letters of credit	**1,531**	1,010
Performance related contingencies	**1,329**	1,598
Total	**30,105**	29,377

UNDRAWN FACILITIES

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be only partially used, and others may never be used at all. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements. Based on the earliest date on which the Banking Group may be required to pay, the total undrawn facilities of NZ$27,245 million (2017: NZ$26,769 million) mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE RELATED CONTINGENCIES

Guarantees, letters of credit and performance related contingencies relate to transactions that the Banking Group has entered into as principal – including: guarantees, standby letters of credit and documentary letters of credit.

Documentary letters of credit involve the Banking Group issuing letters of credit guaranteeing payment in favour of an exporter. They are secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingencies are liabilities that oblige the Banking Group to make payments to a third party if the customer fails to fulfil its non-monetary obligations under the contract.

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply to loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Based on the earliest date on which the Banking Group may be required to pay, the total guarantees and letters of credit of NZ$1,531 million (2017: NZ$1,010 million) and total performance related contingencies of NZ$1,329 million (2017: NZ$1,598 million) mature within 12 months.

OTHER CONTINGENT LIABILITIES

There are outstanding court proceedings, claims and possible claims for and against the Banking Group. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice the interests of the Banking Group.

In recent years there has been an increase in the number of matters on which the Banking Group engages with its regulators. Globally there have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators and customer claims. The Banking Group also instigates engagement with its regulators. The nature of these investigations and reviews can be wide-ranging and, for example, may include a range of matters including responsible lending practices, product suitability, wealth advice and adequacy of product disclosure documentation. The Banking Group has received various notices and requests for information from its regulators as part of both industry-wide and Banking Group specific reviews, and has also made disclosures to its regulators at its own instigation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

NOTES TO THE FINANCIAL STATEMENTS

28. COMPENSATION OF AUDITORS

	2018 NZ$000	2017 NZ$000
KPMG New Zealand		
Audit or review of financial statements[1]	2,199	2,227
Audit related services:		
Prudential and regulatory services[2]	212	225
Offer documents assurance or review	104	146
Other assurance services[3]	36	95
Total audit related services	352	466
Total compensation of auditors relating to the Banking Group	2,551	2,693
Fees relating to certain managed funds and not recharged[4]	45	46
Total compensation of auditors	2,596	2,739

1 Includes fees for both the audit of the annual financial statements and reviews of interim financial statements.
2 Includes fees for reviews and controls reports required by regulations.
3 Includes fees for Trustee reporting, reviews and other agreed upon procedures engagements.
4 Amounts relate to the ANZ PIE Fund and certain other funds, and include fees for audits of annual financial statements, controls report and other agreed upon procedures engagements.

The Banking Group's Policy allows KPMG to provide assurance and other audit related services that, while outside the scope of the statutory audit, are consistent with the role of an external auditor. The Policy allows certain non-audit services to be provided where the service would not contravene auditor independence requirements. KPMG may not provide services that are perceived to be in conflict with the role of the external auditor or breach auditor independence. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the external auditor may ultimately be required to express an opinion on its own work.

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REGISTERED BANK DISCLOSURES

This section contains the additional disclosures required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

B1. GENERAL DISCLOSURES

Details of ultimate parent bank and ultimate holding company

The ultimate parent bank and ultimate holding company of the Bank is Australia and New Zealand Banking Group Limited (Ultimate Parent Bank). The address for service of the Ultimate Parent Bank is ANZ Centre, Melbourne, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

Restrictions on the Ultimate Parent Bank's ability to provide financial support

Effect of APRA's Prudential Standards

APRA Prudential Standard APS 222 *Associations with Related Entities* (APS 222) sets minimum requirements for authorised deposit-taking institutions in Australia (ADIs), including the Ultimate Parent Bank, in relation to the monitoring, management and control of risks which arise from associations with related entities and also includes prudential limits on intra-group exposures.

Under APS222, the Ultimate Parent Bank's ability to provide financial support to the Bank is subject to certain restrictions:

- the Ultimate Parent Bank should not undertake any third party dealings with the prime purpose of supporting the business of the Bank.
- the Ultimate Parent Bank must not hold unlimited exposures (i.e. should be limited as to specified time and amount) in the Bank (e.g. not provide a general guarantee covering any of the Bank's obligations).
- the Ultimate Parent Bank must not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default by the Ultimate Parent Bank on its obligations.
- the level of exposure of the Ultimate Parent Bank's Level 1 total capital base to the Bank should not exceed: (A) 50% on an individual exposure basis; or (B) 150% in aggregate (being exposures to all similar regulated entities related to the Ultimate Parent Bank).

In addition, APRA confirmed that by 1 January 2021, no more than 5% of the Ultimate Parent Bank's Level 1 Tier 1 capital base can comprise non-equity exposures to its New Zealand operations (its New Zealand branch and the Bank) during ordinary times. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to the Bank during times of financial stress.

APRA also confirmed that contingent funding support by the Ultimate Parent Bank to the Bank during times of financial stress must be provided on terms that are acceptable to APRA and that the Ultimate Parent Bank's exposures to its New Zealand operations must not exceed 50% of the Ultimate Parent Bank's Level 1 Tier 1 capital base. At present, only covered bonds meet APRA's criteria for contingent funding.

In July 2018, APRA released a consultation paper and draft prudential standards on proposed revisions to APS222, which also incorporated changes to its large exposures framework published in December 2017. APRA's proposals include revisions to the prudential limits on exposures to related entities. APRA is proposing to align the capital base used in limit calculations to Level 1 Tier 1 Capital (capital base used in the revised large exposures framework) and to reduce the individual and aggregate limits of exposures to individual related ADIs. APRA is currently consulting on the proposed changes, taking into account submissions already received from the Ultimate Parent Bank and the industry. The impact on the Overseas Banking Group (including ANZ New Zealand) arising from the above consultation will not be known until APRA finalises its review. APRA intends to have the revised APS222 framework implemented by 1 January 2020.

Effect of the Level 3 framework

Under APRA's Level 3 Conglomerates regulations, the Ultimate Parent Bank must limit its financial and operational exposures to subsidiaries (including the Bank). These requirements are not expected to place additional restrictions on the Ultimate Parent Bank's ability to provide financial or operational support to the Bank.

Other APRA powers

The Ultimate Parent Bank may not provide financial support in breach of the Australian Banking Act 1959 (the Banking Act). Under the Banking Act:

- APRA must exercise its powers and functions for the protection of a bank's depositors in Australia and for the promotion of financial system stability in Australia; and
- in the event of a bank becoming unable to meet its obligations or suspending payment, the assets of the bank in Australia will be available to meet that bank's deposit liabilities in Australia in priority to all other liabilities of the bank.

The requirements of the Banking Act and the exercise by APRA of its powers have the potential to impact the management of the liquidity of the Bank.

Interest in 5% or more of voting securities of the Bank

The Immediate Parent Company holds 100% of the voting securities of the Bank. The Immediate Parent Company has the direct ability to appoint 100% of the directors of the Bank, subject to RBNZ advising that is has no objection to the appointment in accordance with the Bank's conditions of registration. RBNZ also has the power under section 113B of the Reserve Bank of New Zealand Act 1989, after obtaining the consent of the Minister of Finance, to remove, replace, or appoint directors in certain circumstances.

Priority of creditors' claims

In the event that the Bank was put into liquidation or ceased to trade, claims of secured creditors and those creditors set out in Schedule 7 of the Companies Act 1993 would rank ahead of the claims of unsecured creditors. Customer deposits, except UDC Secured Investments, are unsecured and rank equally with other unsecured liabilities of the Bank, and such liabilities rank ahead of any subordinated instruments issued by the Bank.

Guarantees

The Bank has guaranteed the payment of interest and principal of covered bonds issued by its subsidiary ANZ New Zealand (Int'l) Limited. This obligation is guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations. The covered bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Refer to page 26 for further details, and to page 43 for the amount of assets of the ANZ Covered Bond Trust pledged as security for covered bonds.

No other material obligations of the Bank are guaranteed as at 15 November 2018.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

Directors

Any document or communication may be sent to any Director at the Registered Office. The document or communication should be marked for the attention of that Director.



	Rt Hon Sir John Key, GNZM AC	David Hisco	Antony Carter
Position	Independent Non-Executive Director and Chair	Chief Executive Officer and Director	Independent Non-Executive Director
Occupation	Company Director	Chief Executive Officer New Zealand and Group Executive	Company Director
Qualifications	BCom, DCom (Honoris Causa)	BBus, MBA	BE (Hons), ME, FNZIM
Resides	Auckland, New Zealand	Auckland, New Zealand	Auckland, New Zealand
Other company directorships	Air New Zealand Ltd, Australia and New Zealand Banking Group Ltd, Thirty Eight JK Ltd	None	Air New Zealand Ltd, Avonhead Mall Ltd, Blues Management Ltd, Fisher & Paykel Healthcare Corporation Ltd, Fisher & Paykel Healthcare Employee Share Purchase Trustee Ltd, Fletcher Building Ltd, Fletcher Building Industries Ltd, Loughborough Investments Ltd, Modern Merchants Ltd, Strategic Interchange Ltd, Tetrad Corporation Ltd



	Shayne Elliott	Michelle Jablko	Mark Verbiest
Position	Non-Executive Director	Non-Executive Director	Independent Non-Executive Director
Occupation	Chief Executive Officer, Australia and New Zealand Banking Group Ltd	Chief Financial Officer, Australia and New Zealand Banking Group Ltd	Company Director
Qualifications	BCom	LLB (Hons), B.Ec (Hons)	LLB, CFInstD
Resides	Melbourne, Australia	Melbourne, Australia	Wanaka, New Zealand
Other company directorships	Australia and New Zealand Banking Group Ltd, Financial Markets Foundation for Children	ANZ Holdings (New Zealand) Ltd	Bear Fund NZ Ltd, Freightways Ltd, Willis Bond Capital Partners Ltd, Willis Bond General Partner Ltd, MyCare Ltd, Meridian Energy Ltd

	Joan Withers
Position	Independent Non-Executive Director
Occupation	Company Director
Qualifications	MBA, AFInstD
Resides	Auckland, New Zealand
Other company directorships	Mercury NZ Ltd, On Being Bold Ltd, The Warehouse Group Ltd, The Warehouse Planit Trustees Ltd, The Warehouse Management Trustee Company Ltd, The Warehouse Management Trustee Company No.2 Ltd

B1. GENERAL DISCLOSURES (continued)

Transactions with Directors

No Director has disclosed that he/she or any immediate relative or professional associate has any dealing with the Banking Group which has been either entered into on terms other than those which would in the ordinary course of business be given to any other person of like circumstances or means or which could otherwise be reasonably likely to influence materially the exercise of the Director's duties as a Director of the Bank.

Board Audit Committee

There is a board Audit Committee which covers audit matters. The committee comprises four directors, all of whom are independent directors.

Policy of the board of directors for avoiding or dealing with conflicts of interest

In order to ensure that members of the Board are reminded of their disclosure obligations under the Companies Act 1993, the following procedures are adopted:

- at least once in each year, Directors are requested to complete, in terms of section 140(1) of the Companies Act 1993, a disclosure of any interests which they have with the Bank itself. Directors are reminded at this time of their obligation under the Companies Act 1993 to disclose promptly any transaction or proposed transaction with the Bank in which they have an interest.
- Directors are also requested to make a general disclosure of their interest in other entities in terms of section 140(2) of the Companies Act 1993. In addition, they are requested to initiate a review of that disclosure if there are any significant alterations which occur subsequently during the period.

In addition to the written disclosures referred to above, Directors disclose relevant interests which they have before discussion of particular business items.

The Companies Act 1993 allows a Director with an interest in a transaction to participate in discussions and to vote on all matters relating to that particular transaction. However, the Board has adopted a guideline whereby a Director with an interest in a transaction should not be present during any discussions, and should not vote, on any matter pertaining to that particular transaction.

Auditors

KPMG, 18 Viaduct Harbour Avenue, Auckland, New Zealand.

Conditions of registration

The following conditions of registration were applicable as at 30 September 2018, and have applied from 1 January 2018.

The registration of ANZ Bank New Zealand Limited ("the bank") as a registered bank is subject to the following conditions:

1. That—

(a) the Total capital ratio of the banking group is not less than 8%;

(b) the Tier 1 capital ratio of the banking group is not less than 6%;

(c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;

(d) the Total capital of the banking group is not less than $30 million;

(e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and

(f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document: "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

For the purposes of this condition of registration, —

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06.

"Total capital ratio", "Tier 1 capital ratio", "Common Equity Tier 1 capital ratio", and "Total capital" must be calculated in accordance with the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

a Tier 2 capital instrument is an instrument that meets the requirements of subsection 2.16(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

1A. That—

(a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ('ICAAP')" (BS12) dated December 2007;

(b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015; and

(c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the banking group complies with all requirements set out in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

1C. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:

(a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the bank's earnings
0% - 0.625%	0%
>0.625 - 1.25%	20%
>1.25 - 1.875%	40%
>1.875% - 2.5%	60%

(b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and

(c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration, —

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

(a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

(b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the banking group's insurance business-

(a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,-

"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:

"insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit Rating of the bank[1]	Connected exposure limit (% of the banking group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

[1] This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's)

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15 percent of the banking group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated November 2015.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

B1. GENERAL DISCLOSURES (continued)

6. That the bank complies with the following corporate governance requirements:
   (a) the board of the bank must have at least five directors;
   (b) the majority of the board members must be non-executive directors;
   (c) at least half of the board members must be independent directors;
   (d) an alternate director,—
      (i) for a non-executive director must be non-executive; and
      (ii) for an independent director must be independent;
   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
   (f) the chairperson of the board of the bank must be independent; and
   (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the bank;
   (d) the majority of the members of the committee must be independent; and
   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

10. That a substantial proportion of the bank's business is conducted in and from New Zealand.

11. That the bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the bank that are carried on by a person other than the bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the bank or of a service provider to the bank, the following outcomes:
   (a) that the bank's clearing and settlement obligations due on a day can be met on that day;
   (b) that the bank's financial risk positions on a day can be identified on that day;
   (c) that the bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
   (d) that the bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

   This condition ceases to apply in respect of an existing outsourcing arrangement on the earlier of either 1 October 2022 or when the existing outsourcing arrangement becomes compliant with condition 24, from which point in time condition 24 will apply to that outsourcing arrangement.

   For the purposes of this condition of registration:
   (a) the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006; and
   (b) the term "existing outsourcing arrangement" is defined in the Reserve Bank of New Zealand document entitled "Outsourcing Policy (BS11)" dated September 2017.

12. That:
   (a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;
   (b) the employment contract of the chief executive officer of the bank or person in an equivalent position (together "CEO") is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank; and
   (c) all staff employed by the bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and be accountable (directly or indirectly) to the CEO of the bank.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

13. That the banking group complies with the following quantitative requirements for liquidity-risk management:

    (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;

    (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and

    (c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated January 2018 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

14. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:

    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

    (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and

    (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

15. That no more than 10% of total assets may be beneficially owned by a SPV.

    For the purposes of this condition, —

    "total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets:

    "SPV" means a person—

    (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;

    (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and

    (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

    "covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

16. That—

    (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:

        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

    (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;

        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

        (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

    For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

17. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—

    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—

        (i) all liabilities are frozen in full; and

        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;

    (b) apply a *de minimis* to relevant customer liability accounts;

    (c) apply a partial freeze to the customer liability account balances;

    (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;

    (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and

    (f) reinstate customers' access to some or all of their residual frozen funds.

    For the purposes of this condition of registration, "*de minimis*", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

B1. GENERAL DISCLOSURES (continued)

18. That the bank has an Implementation Plan that—
    (a) is up-to-date; and
    (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS17) dated September 2013.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

19. That the bank has a compendium of liabilities that—
    (a) at the product-class level lists all liabilities, indicating which are—
        (i) pre-positioned for Open Bank Resolution; and
        (ii) not pre-positioned for Open Bank Resolution;
    (b) is agreed to by the Reserve Bank; and
    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

    For the purposes of this condition of registration, "compendium of liabilities" and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

20. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

21. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential loans with a loan-to-valuation ratio of more than 65%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

22. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

23. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

24. That the bank must comply with the Reserve Bank of New Zealand document "Outsourcing Policy" (BS11) dated September 2017.

In these conditions of registration,—

"banking group" means ANZ Bank New Zealand Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 21 to 23, —

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans" and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2018:

"loan-to-valuation measurement period" means—

(a) the six calendar month period ending on the last day of March 2018; and

(b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of April 2018.

Non-compliance with conditions of registration

During the year ended 30 September 2018, the Bank sought clarification from RBNZ as to the treatment of commitments jointly held with the Ultimate Parent Bank in the risk weighted exposures for the Banking Group for capital adequacy purposes. RBNZ subsequently confirmed that those parts of the commitments that are not allocated to the Banking Group, but could become allocated to the Banking Group at the customer's request should be included in the Banking Group's calculation of risk weighted exposures. As a result, the Bank had not complied with Condition of Registration 1 and Condition of Registration 1B for a period of time. These commitments are included in the Banking Group's risk weighted exposures as at 30 September 2018, and the Bank was in full compliance with its Conditions of Registration as at that date. The Banking Group's capital ratios were not materially affected as a result of the non-compliance. As at 30 September 2018, the Banking Group's Tier 1 capital ratio decreased by 13 basis points to 14.4% and it had a NZ$58 million increase in its minimum capital requirement as a result of including these commitments in its risk weighted exposures. The Bank proactively brought this matter to the attention of RBNZ, who have acknowledged that no further action is warranted on the part of RBNZ.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

Pending proceedings or arbitration

A description of any pending legal proceedings or arbitration concerning any member of the Banking Group that may have a material adverse effect on the Bank or the Banking Group is included in Note 27 Commitments and Contingent Liabilities.

Credit rating

As at 15 November 2018 the Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars. On 19 June 2017, Moody's Investors Service downgraded the Bank's credit rating from Aa3 to A1 and changed the outlook on the Bank from Negative to Stable.

The Bank's credit ratings are:

Rating Agency	Credit Rating	Qualification
S&P Global Ratings	AA-	Outlook Negative
Fitch Ratings	AA-	Outlook Stable
Moody's Investors Service	A1	Outlook Stable

The following table describes the credit rating grades available:

	S&P Global Ratings	Moody's Investors Service	Fitch Ratings
The following grades display investment grade characteristics:			
Ability to repay principal and interest is extremely strong. This is the highest investment category.	AAA	Aaa	AAA
Very strong ability to repay principal and interest.	AA	Aa	AA
Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A	A
Adequate ability to repay principal and interest. More vulnerable to adverse changes.	BBB	Baa	BBB
The following grades have predominantly speculative characteristics:			
Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default.	B	B	B
Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	CCC	Caa	CCC
Highest risk of default.	CC to C	Ca to C	CC to C
Obligations currently in default.	D	-	RD & D

Credit ratings from S&P Global Ratings and Fitch Ratings may be modified by the addition of "+" or "-" to show the relative standing within the "AA" to "B" categories. Moody's Investors Service applies numerical modifiers 1, 2, and 3 to each of the "Aa" to "Caa" classifications, with 1 indicating the higher end and 3 the lower end of the rating category.

B1. GENERAL DISCLOSURES (continued)

Historical summary of financial statements

Income Statement	2018 NZ$m	2017 NZ$m	2016 NZ$m	2015 NZ$m	2014 NZ$m
Interest income	**6,390**	6,198	6,423	6,926	6,272
Interest expense	**(3,240)**	(3,161)	(3,421)	(4,051)	(3,529)
Net interest income	**3,150**	3,037	3,002	2,875	2,743
Non-interest income	**1,126**	938	852	1,175	1,085
Operating income	**4,276**	3,975	3,854	4,050	3,828
Operating expenses	**(1,517)**	(1,468)	(1,599)	(1,512)	(1,489)
Credit impairment (charge) / release	**(55)**	(62)	(150)	(74)	16
Profit before income tax	**2,704**	2,445	2,105	2,464	2,355
Income tax expense	**(751)**	(680)	(570)	(681)	(639)
Profit after income tax	**1,953**	1,765	1,535	1,783	1,716
Dividends paid	**(4,611)**	(1,695)	(1,363)	(1,760)	(2,353)
Share capital issued	**3,000**	-	-	675	970
Balance Sheet					
Total assets	**159,012**	153,973	160,819	147,527	128,915
Total individually impaired assets	**321**	357	426	382	634
Total liabilities	**145,903**	141,192	148,109	135,074	117,134
Equity	**13,109**	12,781	12,710	12,453	11,781

The amounts included in this summary have been taken from the audited financial statements of the Banking Group.

Directors' statements

The Directors' statement is included on page 83.

Auditor's report

The auditor's report is included on page 84.

Index

The index to the contents of the Disclosure Statement is included on page 2, and an index to the contents of the Financial Statements is included on page 3.

REGISTERED BANK DISCLOSURES

B2. ADDITIONAL FINANCIAL DISCLOSURES

Additional information on the balance sheet

	2018 NZ$m	2017 NZ$m
Total interest earning and discount bearing assets	145,322	138,795
Total interest and discount bearing liabilities	124,625	119,814

Additional information on interest rate sensitivity

The following tables represent the interest rate sensitivity of the Banking Group's assets, liabilities and off balance sheet instruments by showing the periods in which these instruments may reprice, that is, when interest rates applicable to each asset or liability can be changed.

2018	Total NZ$m	Up to 3 months NZ$m	Over 3 to 6 months NZ$m	Over 6 to 12 months NZ$m	Over 1 to 2 years NZ$m	Over 2 years NZ$m	Not bearing interest NZ$m
Assets							
Cash and cash equivalents	2,200	1,913	-	-	-	-	287
Settlement balances owed to the Banking Group	656	-	-	-	-	-	656
Collateral paid	1,919	1,919	-	-	-	-	-
Trading securities	8,024	873	405	492	1,373	4,881	-
Derivative financial instruments	8,086	-	-	-	-	-	8,086
Available-for-sale assets	6,502	338	699	42	1,351	4,071	1
Net loans and advances[1]	126,466	63,027	10,370	23,835	20,835	8,771	(372)
Other financial assets[1]	719	62	55	8	-	2	592
Total financial assets	154,572	68,132	11,529	24,377	23,559	17,725	9,250
Liabilities							
Settlement balances owed by the Banking Group	2,161	750	-	-	-	-	1,411
Collateral received	845	845	-	-	-	-	-
Deposits and other borrowings[1]	108,008	67,952	12,924	12,444	3,043	1,421	10,224
Derivative financial instruments	8,095	-	-	-	-	-	8,095
Debt issuances	25,135	3,979	3,046	757	3,782	13,571	-
Other financial liabilities[1]	686	111	-	-	-	-	575
Total financial liabilities	144,930	73,637	15,970	13,201	6,825	14,992	20,305
Hedging instruments	-	14,690	1,522	(14,121)	(9,146)	7,055	-
Interest sensitivity gap	9,642	9,185	(2,919)	(2,945)	7,588	9,788	(11,055)

1 Including items reclassified as held for sale

Reconciliation of mortgage related amounts

As at 30 September 2018	Note	NZ$m
Term loans - housing[1]	11	78,395
Less: fair value hedging adjustment		(10)
Less: housing loans made to corporate customers		(2,224)
Add: unsettled re-purchases of mortgages from the NZ Branch		7
On-balance sheet residential mortgage exposures subject to the IRB approach	B4	76,168
Add: off-balance sheet residential mortgage exposures subject to the IRB approach	B4	8,232
Total residential mortgage exposures subject to the IRB approach (as per LVR analysis)	B4	84,400

1 Term loans – housing includes loans secured over residential property for owner-occupier, residential property investment and business purposes.

B3. ASSET QUALITY

Past due assets

	2018				2017			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Less than 30 days past due	595	186	639	1,420	556	187	642	1,385
At least 30 days but less than 60 days past due	109	31	39	179	85	34	171	290
At least 60 days but less than 90 days past due	105	20	3	128	95	18	12	125
At least 90 days past due	152	34	19	205	132	31	19	182
Total past due but not impaired	961	271	700	1,932	868	270	844	1,982

Movement in individually impaired assets

	2018				2017			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Balance at beginning of the period	31	20	306	357	57	27	342	426
Additions	21	107	267	395	35	106	430	571
Amounts written off	(1)	(77)	(71)	(149)	(1)	(82)	(50)	(133)
Deletions	(26)	(25)	(231)	(282)	(60)	(31)	(416)	(507)
Balance at end of the period	25	25	271	321	31	20	306	357
Individual provision	21	11	98	130	25	6	121	152

Movement in balances of individual credit impairment allowances

	2018				2017			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Balance at beginning of the period	25	6	121	152	37	6	108	151
Individual credit impairment charge / (release)								
New and increased provisions	7	90	116	213	5	94	133	232
Write-backs	(9)	(8)	(66)	(83)	(16)	(12)	(67)	(95)
Recoveries of amounts previously written off	-	(21)	(9)	(30)	-	(20)	(11)	(31)
Individual credit impairment charge / (release)	(2)	61	41	100	(11)	62	55	106
Bad debts written off	(1)	(77)	(71)	(149)	(1)	(82)	(50)	(133)
Add back recoveries of amounts previously written off	-	21	9	30	-	20	11	31
Discount unwind	(1)	-	(2)	(3)	-	-	(3)	(3)
Balance at end of the period	21	11	98	130	25	6	121	152

Movement in balances of collective credit impairment allowances

	2018				2017			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Balance at beginning of the period	75	121	231	427	78	130	263	471
Charge / (release) to income statement	7	(3)	(49)	(45)	(3)	(9)	(32)	(44)
Balance at end of the period	82	118	182	382	75	121	231	427

Asset quality for financial assets designated at fair value

The Banking Group does not have any loans and advances designated at fair value through profit or loss.

Other asset quality information

	2018				2017			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Undrawn facilities with impaired customers	-	-	14	14	1	-	5	6
Other assets under administration	7	2	-	9	8	2	-	10

REGISTERED BANK DISCLOSURES

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED)

RBNZ Basel III capital ratios

	Banking Group			Bank (Solo Consolidated)	
	RBNZ minimum	2018	2017	2018	2017
Common equity tier 1 capital	4.5%	11.1%	10.7%	9.5%	9.5%
Tier 1 capital	6.0%	14.4%	14.1%	13.0%	13.0%
Total capital	8.0%	14.4%	14.4%	13.0%	13.3%
Buffer ratio	2.5%	6.4%	6.2%	n/a	n/a

Capital of the Banking Group

As at 30 September 2018	NZ$m
Tier 1 capital	
Common equity tier 1 (CET1) capital	
Paid up ordinary shares issued by the Bank	11,588
Retained earnings (net of appropriations)	1,188
Accumulated other comprehensive income and other disclosed reserves	33
Less deductions from common equity tier 1 capital	
Goodwill and intangible assets, net of associated deferred tax liabilities	(3,381)
Cash flow hedge reserve	(22)
Expected losses to the extent greater than total eligible allowances for impairment	(325)
Common equity tier 1 capital	9,081
Additional tier 1 capital	
Preference shares[1]	300
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN)[2]	500
NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN)[2]	1,003
NZD 938m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN2)[2]	938
Retained earnings of the Bonus Bonds Scheme [3]	55
Less deductions from additional tier 1 capital	
Surplus retained earnings of the Bonus Bonds Scheme [3]	(20)
Additional tier 1 capital	2,776
Total tier 1 capital	11,857
Tier 2 capital	-
Total capital	11,857

1 Classified as equity on the balance sheet under NZ Generally Accepted Accounting Practice (NZ GAAP).
2 Classified as a liability on the balance sheet under NZ GAAP.
3 Bonus Bonds Scheme is not consolidated on the balance sheet under GAAP but is classified as AT1 capital for capital adequacy purposes as set out in BS2B.

Capital requirements of the Banking Group

As at 30 September 2018	Total exposures after credit risk mitigation NZ$m	Risk weighted exposure or implied risk weighted exposure[1] NZ$m	Total capital requirement NZ$m
Total credit risk	185,616	69,019	5,521
Operational risk	n/a	6,027	482
Market risk	n/a	4,776	382
Agri business supervisory adjustment	n/a	2,325	186
Total	185,616	82,147	6,571

1 The calculation of capital requirements for total credit risk weighted includes a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Credit risk subject to the Internal Ratings Based (IRB) approach

IRB credit exposures by exposure class and customer credit rating

As at 30 September 2018	Probability of default %	Exposure at default NZ$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Corporate						
0 - 2	0.06	5,757	63	39	2,390	191
3 - 4	0.32	23,866	36	40	10,119	810
5	0.99	12,877	33	58	7,954	636
6	2.27	4,083	33	77	3,314	265
7 - 8	12.86	1,606	38	157	2,666	213
Default	100.00	381	45	163	660	53
Total corporate exposures	1.83	48,570	38	53	27,103	2,168
Sovereign						
0	0.01	11,636	5	1	160	13
1 - 8	0.02	680	5	1	10	1
Total sovereign exposures	0.01	12,316	5	1	170	14
Bank						
0	0.03	61	65	15	10	1
1	0.03	10,323	57	25	2,748	220
2 - 4	0.12	796	64	41	347	28
5 - 8	4.56	4	48	148	7	-
Total bank exposures	0.04	11,184	58	26	3,112	249
Residential mortgages						
0 - 3	0.20	24,424	12	5	1,397	112
4	0.46	34,360	18	15	5,370	430
5	0.92	21,170	23	31	6,963	557
6	1.98	4,504	26	60	2,862	229
7 - 8	4.89	356	27	97	364	29
Default	100.00	220	19	19	42	3
Total residential mortgages exposures	0.85	85,034	18	19	16,998	1,360
Other retail						
0 - 2	0.10	561	77	49	294	24
3 - 4	0.27	4,848	78	55	2,805	224
5	1.04	1,941	72	74	1,526	122
6	2.23	1,902	71	90	1,808	145
7 - 8	8.11	1,649	82	128	2,230	178
Default	100.00	80	77	48	42	3
Total other retail exposures	2.64	10,981	76	75	8,705	696
Total credit risk exposures subject to the IRB approach	1.14	168,085	30	31	56,088	4,487

Credit risk exposures subject to the IRB approach have been derived in accordance with *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) and other relevant correspondence with RBNZ setting out prescribed credit risk estimates.

REGISTERED BANK DISCLOSURES

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

IRB credit exposures: On-balance sheet, off-balance sheet and market related contracts

As at 30 September 2018	Total exposure or principal amount NZ$m	Exposure at default NZ$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures						
Corporate	34,724	34,604	33	53	19,298	1,543
Sovereign	12,178	11,855	5	1	120	10
Bank	5,907	5,262	56	19	1,073	86
Residential mortgages	76,168	76,391	19	19	15,761	1,261
Other retail	5,358	5,449	73	93	5,372	429
Total on-balance sheet exposures	134,335	133,561	25	29	41,624	3,329
Off-balance sheet exposures						
Corporate	12,154	11,210	48	48	5,684	455
Sovereign	346	313	5	1	2	-
Bank	1,787	1,445	53	18	272	22
Residential mortgages	8,232	8,643	16	14	1,237	99
Other retail	5,514	5,532	79	57	3,333	267
Total off-balance sheet exposures	28,033	27,143	44	37	10,528	843
Market related contracts						
Corporate	87,191	2,756	61	73	2,121	170
Sovereign	14,642	148	5	30	48	4
Bank	962,075	4,477	61	37	1,767	141
Total market related contracts	1,063,908	7,381	60	50	3,936	315
Total credit risk exposures subject to the IRB approach	1,226,276	168,085	30	31	56,088	4,487

Other IRB credit exposures

As at 30 September 2018	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Cash	204	-	-	-
New Zealand dollar denominated claims on the Crown and RBNZ	1,734	-	-	-
Other assets	1,502	100	1,592	127
Total other IRB credit risk exposures	3,440	44	1,592	127

Other IRB credit exposures have been calculated in accordance with BS2B.

Additional mortgage information

As required by RBNZ, loan-to-valuation-ratios (LVR) are calculated as the current exposure secured by a residential mortgage divided by the Banking Group's valuation of the security property at origination of the exposure. Off balance sheet exposures include undrawn and partially drawn residential mortgage loans as well as commitments to lend. Commitments to lend are formal offers for housing lending which have been accepted by the customer.

As at 30 September 2018	On-balance sheet NZ$m	Off-balance sheet NZ$m	Total NZ$m
LVR range			
Does not exceed 60%	37,789	5,565	43,354
Exceeds 60% and not 70%	17,267	1,320	18,587
Exceeds 70% and not 80%	17,234	1,035	18,269
Does not exceed 80%	72,290	7,920	80,210
Exceeds 80% and not 90%	2,617	131	2,748
Exceeds 90%	1,261	181	1,442
Total	76,168	8,232	84,400

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Specialised lending subject to the slotting approach

As at 30 September 2018	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures				
Strong	4,594	70	3,408	273
Good	5,735	90	5,472	438
Satisfactory	322	115	393	31
Weak	89	250	234	19
Default	39	-	-	-
Total on-balance sheet exposures	10,779	83	9,507	761

As at 30 September 2018	Exposure amount NZ$m	Exposure at default NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Off-balance sheet exposures					
Undrawn commitments and other off balance sheet exposures	1,484	1,302	82	1,135	91
Market related contracts	2,006	102	130	141	11
Total off-balance sheet exposures	3,490	1,404	86	1,276	102

Specialised lending exposures subject to the slotting approach have been calculated in accordance with BS2B.

The supervisory categories of specialised lending above are associated with specific risk-weights. These categories broadly correspond to the following external credit assessments using S&P Global Ratings' rating scale, Strong: BBB- or better, Good: BB+ or BB, Satisfactory: BB- or B+ and Weak: B to C-.

Credit risk exposures subject to the standardised approach

As at 30 September 2018	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures				
Corporates	130	76	105	8
Default	1	150	1	-
Total on-balance sheet exposures	131	77	106	8

As at 30 September 2018	Exposure amount NZ$m	Average credit conversion factor %	Exposure at default NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Off-balance sheet exposures						
Total off balance sheet exposures subject to the standardised approach	588	60	352	97	361	29
Market related contracts	222,026	1	1,418	4	61	5

Credit exposures subject to the standardised approach have been calculated in accordance with BS2A.

Equity exposures

As at 30 September 2018	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
All equity holdings not deducted from capital	7	400	28	2

Equity exposures have been calculated in accordance with BS2B.

REGISTERED BANK DISCLOSURES

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Credit risk mitigation

As at 30 September 2018, under the IRB approach, the Banking Group had NZ$912 million of Corporate exposures covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

Operational risk

The Banking Group uses the Advanced Measurement Approach for determining its regulatory capital requirement for operational risk calculated in accordance with BS2B. As at 30 September 2018, the Banking Group had an implied risk weighted exposure of NZ$6,027 million for operational risk and an operational risk capital requirement of NZ$482 million.

Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B. The peak end-of-day market risk exposures are for the six months ended 30 September 2018.

	Implied risk weighted exposure		Aggregate capital charge	
As at 30 September 2018	Period end NZ$m	Peak NZ$m	Period end NZ$m	Peak NZ$m
Interest rate risk	4,733	5,782	379	463
Foreign currency risk	42	152	3	12
Equity risk	1	1	-	-
	4,776		382	

Capital for other material risks

The Banking Group has an Internal Capital Adequacy Assessment Process (ICAAP) which complies with the requirements of the Bank's Conditions of Registration. Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier 1 and total capital ratios. The other material risks identified by the Banking Group include pension risk, insurance risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk, value in-force risk, business retention risk and software risk. The Banking Group's internal capital allocation for these other material risks is NZ$389 million. (2017: NZ$421 million).

Information about Ultimate Parent Bank and Overseas Banking Group

APRA Basel III capital ratios	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
	2018	2017	2018	2017
Common equity tier 1 capital	11.4%	10.6%	11.6%	10.5%
Tier 1 capital	13.4%	12.6%	13.6%	12.7%
Total capital	15.2%	14.8%	15.6%	14.8%

The Ultimate Parent Bank and the Overseas Banking Group are required to hold minimum capital as determined by APRA, which is at least equal to that specified under the Basel III capital framework.

APRA has authorised the Ultimate Parent Bank and the Overseas Banking Group to use:

- the Advanced Internal Ratings Based (AIRB) methodology for calculation of credit risk weighted assets. There are however small portfolios (mainly retail and local corporates in Asia Pacific) where the Overseas Banking Group applies the standardised approach.
- the Advanced Measurement Approach (AMA) for the operational risk weighted asset equivalent.

The Overseas Banking Group exceeded the minimum capital requirements set by APRA as at 30 September 2018 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2018. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 30 September 2018, in accordance with APS 330: *Public Disclosure of Prudential Information*, discloses capital adequacy ratios and other prudential information. This document can be accessed at the website anz.com.

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Regulatory liquidity ratios

RBNZ requires banks to hold minimum amounts of liquid assets to help ensure that they are effectively managing their liquidity risks. The mismatch ratio is a measure of a bank's liquid assets, adjusted for expected cash inflows and outflows during a 1-month or 1-week period of stress. It is expressed as a ratio over the bank's total funding. The Banking Group must maintain its 1-month and 1-week mismatch ratios above zero on a daily basis. The 1-month and 1-week mismatch ratios are averaged over the quarter.

RBNZ requires banks to get a minimum amount of funding from stable sources called core funding. The minimum amount of core funding is currently set at 75% of a bank's total loans. The Banking Group must maintain its core funding ratio above 75% on a daily basis. This measure of the core funding ratio is averaged over the quarter.

For the three months ended	30 Sep 18	30 Jun 18
Quarterly average 1-week mismatch ratio	5.3%	4.7%
Quarterly average 1-month mismatch ratio	5.1%	4.5%
Quarterly average core funding ratio	89.5%	89.6%

B5. CONCENTRATIONS OF CREDIT RISK TO INDIVIDUAL COUNTERPARTIES

The Banking Group measures its concentration of credit risk to individual counterparties at the reporting date on the basis of actual exposures. Peak end-of-day aggregate credit exposures are measured on the basis of internal limits that were not materially exceeded between the reporting date for the previous disclosure statement and the reporting date for the Disclosure Statement.

The exposure information in the table below excludes exposures to:

- connected persons (ie other members of the Overseas Banking Group and Directors of the Bank);
- the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent; and
- any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

	As at 30 Sep 18	Peak end of day over 6 months to 30 Sep 18
Exposures to banks		
Total number of exposures to banks that are greater than 10% of CET1 capital	3	3
with a long-term credit rating of A- or A3 or above, or its equivalent	3	3
- 10% to less than 15% of CET1 capital	3	-
- 15% to less than 20% of CET1 capital	-	2
- 20% to less than 25% of CET1 capital	-	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% of CET1	2	2
with a long-term credit rating of A- or A3 or above, or its equivalent	2	2
- 10% to less than 15% of CET1 capital	1	1
- 15% to less than 20% of CET1 capital	1	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

REGISTERED BANK DISCLOSURES

B6. CREDIT EXPOSURES TO CONNECTED PERSONS

	Connected persons		Non-bank connected	
	Amount NZ$m	% of Tier 1 Capital	Amount NZ$m	% of Tier 1 Capital
As at 30 September 2018				
Gross amount, before netting	7,907	66.7%	-	0.0%
Amount netted	5,475	46.2%	-	0.0%
Aggregate credit exposure (on partial bilateral net basis)	2,432	20.5%	-	0.0%
Peak end-of day aggregate credit exposure over the year ended 30 September 2018				
Gross amount, before netting	11,196	94.4%	-	0.0%
Amount netted	7,718	65.1%	-	0.0%
Aggregate credit exposure (on partial bilateral net basis)	3,478	29.3%	-	0.0%

Credit exposures to connected persons

The information on credit exposure to connected persons has been derived in accordance with the RBNZ Banking Supervision Handbook document *Connected Exposures Policy* (BS8), is net of individual credit impairment allowances and excludes advances to connected persons of a capital nature.

Peak end-of-day aggregate exposure

Peak end-of-day aggregate credit exposure to connected persons as a ratio to tier 1 capital for the full year accounting period is derived by determining the maximum end-of-day aggregate amount of credit exposure over the accounting period and then dividing that amount by the Banking Group's tier 1 capital as at the reporting date.

Rating contingent limit

The rating-contingent limit that applied to the Banking Group as at 30 September 2018 was 60%. No limit changes have occurred over the year to 30 September 2018. Within the overall rating-contingent limit, there is a sub-limit of 15% of tier 1 capital that applies to the aggregate credit exposure to non-bank connected persons.

Additional requirements for aggregate credit exposure to connected persons

Aggregate credit exposure to connected persons has been calculated on a partial bilateral net basis. The gross amounts and amounts netted off under a bilateral netting agreement are included in the table above. There is a limit of 125% of the Banking Group's tier 1 capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure.

Aggregate amount of contingent exposures arising from risk lay-off arrangements

NZ$698 million of contingent exposures of the Banking Group to connected persons arose from risk lay-off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons) as at 30 September 2018.

Aggregate amount of individual credit impairment allowances against credit exposures to connected persons

There were no individual credit impairment allowances provided against credit exposures to connected persons as at 30 September 2018.

B7. INSURANCE BUSINESS, SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITES AND MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS

Insurance business

The Banking Group conducts insurance business through its subsidiary OnePath. The Banking Group's aggregate amount of insurance business comprises the total consolidated assets of OnePath of NZ$940 million (2017: NZ$921 million), which is 0.6% (2017: 0.6%) of the total consolidated assets of the Banking Group.

Banking Group's involvement in securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products

a) Banking Group's involvement in the establishment, marketing, or sponsorship of trust, custodial, funds management, and other fiduciary activities

Activity	Details
Custodial	The Banking Group operates three custodians: • ANZ Custodial Services New Zealand Limited, which is the appointed custodian for private banking's (ANZ Private) Discretionary Investment Management Service, Wholesale Investment Services and Trading Service; • ANZ New Zealand Investments Nominees Limited, which is the appointed custodian in respect of direct holdings of securities by various wholesale customer portfolios managed by ANZ New Zealand Investments Limited (ANZ Investments); and • ANZ New Zealand Securities Nominees Limited, which is the appointed custodian for the ANZ Securities share and bond trading service.
Funds management	The Banking Group provides the following funds management services: • *Managed Investment Schemes (MIS):* The Banking Group's subsidiaries ANZ Investments and ANZ Investment Services (New Zealand) Limited (ANZIS) act as manager for a number of managed investment schemes. ANZ Investments holds a MIS Manager licence, with ANZIS being an authorised body under that licence. ANZ Investments is the issuer and manager of ANZ and OneAnswer-branded KiwiSaver schemes, retail and wholesale schemes. ANZIS is the issuer and manager of the Bonus Bonds Scheme and the ANZ PIE Fund. • *Discretionary Investment Management Service (DIMS):* The Bank is a licensed DIMS provider. This service is offered to ANZ Private customers. • *Other investment portfolios:* ANZ Investments also manages investment portfolios for a number of schemes where the scheme manager or trustee has outsourced investment management services to ANZ Investments. These schemes are typically corporate superannuation schemes.
Other fiduciary activities	ANZ Investments, through its subsidiary OneAnswer Nominees Limited, offers the OneAnswer Portfolio Service. The associated administration and custody services are provided by FNZ Limited and FNZ Custodians Limited respectively (together FNZ). FNZ is not a member or related party of the Banking Group.

b) Banking Group's involvement in the origination of securitised assets, and the marketing or servicing of securitisation schemes

The Banking Group originates securitised assets in the form of residential mortgage backed securities held for potential repurchase transactions with RBNZ, and covered bonds. Refer to Note 23 Structured Entities for further details about these programmes. Other than these activities, the Banking Group is not involved in the marketing or servicing of securitisation schemes.

c) Banking Group's involvement in marketing and distribution of insurance products

The Banking Group markets and distributes life insurance products provided by OnePath.

The Banking Group also markets and distributes other personal and business insurance products provided by or arranged through a number of other insurance partners. None of these other insurance partners are affiliated insurance entities or affiliated insurance groups.

Arrangements to ensure no adverse impacts arising from the above activities

Arrangements have been put in place to ensure that difficulties arising from the activities in a), b) and c) above would not impact adversely on the Banking Group. The policies and procedures in place include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management.

REGISTERED BANK DISCLOSURES

B7. INSURANCE BUSINESS, SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITES AND MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS (continued)

Amounts represented by funds management and securitisation activities

	2018 NZ$m	2017 NZ$m
Funds under management:		
KiwiSaver[1]	12,923	11,047
Bonus Bonds Scheme[2]	3,300	3,405
Other managed funds[1]	2,261	1,984
ANZ PIE Fund[2]	1,656	1,381
Discretionary Investment Management Service (DIMS)[3]	7,678	7,193
Other investment portfolios[1]	2,847	3,480
Total funds under management	30,665	28,490
Funds under custodial arrangements[4]	7,970	7,951
Other funds held or managed subject to fiduciary responsibilities[5]	1,270	1,325
Outstanding securitised assets originated by the Banking Group - carrying amount of Covered Bonds	3,929	5,315

1 Managed by ANZ New Zealand Investments Limited.
2 Managed by ANZ Investment Services (New Zealand) Limited.
3 Managed by the Bank.
4 Includes NZ$60 million (2017: NZ$370 million) held in custody by ANZ New Zealand Securities Nominees Limited which are not included in funds under management. All other funds held in custody are included in funds under management.
5 Not included in funds under management.

Financial services provided to entities conducting the above activities

Financial services provided by any member of the Banking Group to entities that conduct the activities in a) or b) above are provided on arm's length terms and conditions and at fair value.

Assets purchased from entities conducting the above activities

Over the year ended 30 September 2018, any assets purchased by any member of the Banking Group from entities that conduct the activities in a), b) or c) above have been purchased on arm's length terms and conditions and at fair value.

Funding provided to entities in aggregate and individually

The peak end-of day aggregate amount of funding provided to entities that provide services relating to the Banking Group's involvement in the above activities over the year ended 30 September 2018 was less than NZ$0.1 million (2017: less than NZ$0.1 million) which was 0.0% (2017: 0.0%) of the Banking Group's tier 1 capital and 0.0% (2017: 0.0%) of the total assets of the individual entity.

Method for deriving peak end-of-day amount of funding in aggregate and individually

The peak end-of-day aggregate amount of funding is the maximum end-of-day aggregate amount of funding over the full year accounting period, divided by the Banking Group's tier 1 capital as at the balance date, and the total assets as at the balance date of the individual entity to which the Banking Group has provided funding. Where financial statements for the individual entity are not publicly available, total assets from the publicly available financial statements of the group of which the entity is a member have been used.

B8. RISK MANAGEMENT POLICIES

Information about risk

The success of the Banking Group's strategy is underpinned by our sound management of the Banking Group's risks. All of the Banking Group's activities involve - to varying degrees - the analysis, evaluation, acceptance and management of risks or combinations of risks.

The Board is responsible for establishing and overseeing the Banking Group's Risk Management Framework (RMF). The Board has delegated authority to the Bank's Board Risk Committee (BRC) to develop and monitor compliance with the Banking Group's financial risk management policies. The Committee reports regularly to the Board on its activities.

The key pillars of the Banking Group's risk management framework include:
- The Risk Appetite Statement (RAS), which clearly and concisely sets out the Board's expectations regarding the degree of risk that the Banking Group is prepared to accept in pursuing its strategic objectives and its business plan; and
- The Risk Management Statement (RMS), which describes the Banking Group's strategy for managing risks and a summary of the key elements of the RMF that give effect to that strategy. The RMS includes: a description of each material risk and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how the Banking Group identifies, measures, evaluates, monitors, reports and then either controls or mitigates material risks.

The material risks facing per the Banking Group's RMS, and how these risks are managed are summarised below:

Key material risks

Risk Type	Description	Management of Risks
Capital Adequacy Risk	The risk of loss arising from the Banking Group failing to maintain the level of capital required by prudential regulators and other key stakeholders (shareholders, debt investors, depositors,rating agencies, etc.) to support the Banking Group's consolidated operations and risk appetite.	The Banking Group pursues an active approach to Capital Management through ongoing review, and Board approval, of the level and composition of the Banking Group's capital base against key policy objectives.
Compliance Risk	The probability and impact of an event that results in a breach of any of the following that apply to the Banking Group's businesses: laws, regulations, industry standards, codes, internal policies, internal procedures, or principles of good governance.	Key features of our Compliance Risk framework include centralised management of key obligations, and emphasis on identifying changes in regulations and the business environment, so as to enable us to: • proactively assess emerging compliance risks; and • implement robust reporting and certification processes.
Credit Risk	The risk of financial loss resulting from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in a financial loss. Credit Risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies.	Our Credit Risk framework is top down, being defined by credit principles and policies. Credit policies, requirements and procedures cover all aspects of the credit life cycle - for example: transaction structuring, risk grading, initial approval, ongoing management and problem debt management, as well as specialist policy topics.
Liquidity and Funding Risk	The risk that the Banking Group is unable to meet its payment obligations as they fall due, including: • repaying depositors or maturing wholesale debt; or • the Banking Group having insufficient capacity to fund increases in assets.	Key principles in managing our Liquidity and Funding Risk include: • maintaining the Banking Group's ability to meet liquidity 'survival horizons' under a range of stress scenarios to meet cash flow obligations over a short to medium term horizon; • maintaining a strong structural funding profile; and • maintaining a portfolio of high-quality liquid assets to act as a source of liquidity in times of stress.

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES (continued)

Risk Type	Description	Management of Risks
Market Risk	The risk to the Banking Group's earnings arising from: • changes in any interest rates, foreign exchange rates, credit spreads, volatility, and correlations; or • from fluctuations in bond, commodity or equity prices.	Our risk management and control framework for Market Risk involves us quantifying the magnitude of market risk within the trading and balance sheet portfolios through independent risk measurement. First, we identify the range of possible outcomes, the likely timeframe, and the likelihood of the outcome occurring. Then we allocate an appropriate amount of capital to support these activities.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational Risk: • includes technology risk, cyber risk, legal risk and conduct risk, and damage arising from inadequate or failed internal processes, people and systems; but • excludes Strategic Risk.	The Banking Group operates a three-lines-of-defence model to manage Operational Risk, with each line of defence having defined roles, responsibilities and escalation paths to support effective two-way communication and effective management of our operational risk. Also, we have ongoing review mechanisms to ensure our Operational Risk framework continues to meet organisational needs and regulatory requirements.
Reputation Risk	The risk of loss that directly or indirectly impacts earnings, capital adequacy or value, that is caused by: • adverse perceptions of the Banking Group held by any of customers, the community, shareholders, investors, regulators, or rating agencies; • conduct risk associated with the Banking Group's employees or contractors (or both); or • the social or environmental (or both) impacts of our lending decisions.	We manage Reputation Risk by maintaining a positive and dynamic culture that: • ensures we act with integrity; and • enables us to build strong and trusted relationships with customers and clients, with colleagues, and with the broader society. We have well established decision-making frameworks and policies to ensure our business decisions are guided by sound social and environmental standards that take into account Reputation Risk.
Strategic Risk	The risk that the Banking Group's business strategy and strategic objectives may lead to an increase in other key Material Risks - for example: Credit Risk, Market Risk and Operational Risk.	We consider and manage Strategic Risks through our annual strategic planning process, managed by the Executive Committee and approved by the Board. Any increase to our key Material Risks is managed in accordance with the risk management practices specified above.

Refer to Note 15 Financial Risk Management for the disclosures required under NZ IFRS 7 *Financial Instruments: Disclosures.*

Capital adequacy

Refer to Note 21 Capital Management for the disclosures required under NZ IAS 1 *Presentation of financial statements*.

Reviews of the Banking Group's risk management systems

Refer to Note 15 Financial Risk Management for details of the Internal Audit Function's reviews of the Banking Group's RMF. These reviews are not conducted by a party external to the Banking Group or the Ultimate Parent Bank.

B8. RISK MANAGEMENT POLICIES (continued)

Internal Audit Function of the Banking Group

Refer to Note 15 Financial Risk Management for details of the Internal Audit Function.

The nature and scope of the responsibilities of the Audit Committee responsibilities, to which Internal Audit reports, are to assist the Board of Directors by providing oversight and review of:

- the Banking Group's financial reporting principles and policies, controls, systems and procedures;
- the effectiveness of the Banking Group's internal control and risk management framework;
- the work and internal audit standards of Internal Audit which reports directly and solely to the Chair of the Audit Committee. The internal management reporting line for the General Manager, Internal Audit is to the CEO;
- the integrity of the Banking Group's financial statements and the independent audit thereof, and the Banking Group's compliance with legal and regulatory requirements in relation thereto;
- any due diligence procedures;
- prudential supervision procedures and other regulatory requirements to the extent relating to financial reporting; and
- any other matters referred to it by the Board.

The Audit Committee is also responsible for:

- the appointment, annual evaluation and oversight of the external auditor;
- annual review of the independence, fitness and propriety, and qualifications of the external auditor;
- compensation of the external auditor; and
- where deemed appropriate, replacement of the external auditor.

In carrying out its responsibilities and duties, the Audit Committee will aim to seek fair customer outcomes and financial market integrity in its deliberations.

Measurement of impaired assets

Refer to Note 12 Provision for Credit Impairment and Note 15 Financial Risk Management for details of the Banking Group's approach to measurement of impaired assets. Further to this, impairment is assessed monthly, with individual allowances for credit impairment also updated monthly and collective allowances for credit impairment updated quarterly.

Credit risk mitigation

Refer to Note 18 Offsetting for the policies and processes for, and extent of, on balance sheet netting. The same policies and processes apply to off-balance sheet credit related commitments. No off-balance sheet credit related commitments or guarantees meet the criteria for netting.

As an Advanced Internal Ratings Based (AIRB) bank, the Banking Group uses the comprehensive method to measure the mitigating effects of collateral.

The Banking Group assesses the integrity and ability of counterparties to meet their contractual financial obligations for repayment. The Banking Group generally takes collateral security in the form of real property or a security interest in personal property, except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance, in the form of housing loans, is generally secured against real estate while short term revolving consumer credit is generally unsecured.

Additional information about credit risk

Implementation of the advanced internal ratings based approach to credit risk measurement

The Banking Group adheres to the standards of risk grading and risk quantification as set out for Internal Ratings Based (IRB) banks in the RBNZ document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B).

Under this IRB Framework banks use their own measures for calculating the level of credit risk associated with customers and exposures, by way of the primary components of:

- Probability of Default (PD): An estimate of the level of risk of borrower default graded by way of rating models used both at loan origination and for ongoing monitoring.
- Exposure at Default (EAD): The expected facility exposure at default. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.
- Loss Given Default (LGD): An estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD. For Retail Mortgage exposures the Bank is required to apply the downturn LGDs according to loan to value (LVR) bands as set out in BS2B. For farm lending exposures the Banking Group is required to adopt RBNZ prescribed downturn LVR based LGDs, along with a minimum maturity of 2.5 years and the removal of the firm-size adjustment.

For exposures classified under Specialised Lending, the Banking Group uses slotting tables approved by RBNZ rather than internal estimates.

The exceptions to IRB treatment are three minor portfolios where, due to systems constraints, determining these IRB risk estimates is not currently feasible or appropriate. Risk weights for these exposures are calculated under a separate treatment as set out in the RBNZ document *Capital Adequacy Framework (Standardised Approach)* (BS2A).

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES (continued)

Classification of Banking Group exposures according to rating approach

Internal ratings based approach

IRB Asset Class	Borrower Type	Rating Approach
Sovereign	Crown	IRB - Advanced
	RBNZ	IRB - Advanced
	Any other sovereign and its central bank	IRB - Advanced
Bank	Registered banks	IRB - Advanced
Corporate	Corporation, partnerships or proprietorships that do not fit any other asset classification	IRB - Advanced
	Corporate Small to Medium Enterprises ("SME") with turnover of less than NZ$50 million	IRB - Advanced
Retail Mortgages	Individuals' borrowings against residential property	IRB - Advanced
Other Retail	Other lending to individuals (including credit cards)	IRB - Advanced
	SME business borrowers	IRB - Advanced
Corporate sub-class - Specialised lending	Project finance	IRB - Slotting
	Income producing real estate	IRB - Slotting
Equity		IRB
Other assets	All other assets not falling within any of the above classes	IRB

Standardised approach

Exposure Class	Exposure Type	Reason for Standardised Approach	Future Treatment
Corporate	Merchant card prepayment exposures	System constraints	Move to IRB
	Corporate credit cards	System constraints	Move to IRB
Bank	Qualifying Central Counterparty (QCCP)	Required by Basel III	Standardised

Additional information about operational risk

Operational risk capital is modelled at a New Zealand geographic level and then distributed and adjusted for the business environment and internal controls down to the business units using the Risk Scenario Methodology. This methodology ensures that there is sufficient operational risk capital held as a buffer for rare and severe unexpected operational loss events that may impact the New Zealand business. The Methodology applies a combination of expert judgement, business unit risk profiles, audit findings, and internal and external loss events to derive a series of business specific Risk Scenarios that are applied to the capital model. The Risk Scenario approach

- assesses the level of the Bank's exposure to specified risk scenarios;
- assesses the scope and quality of the Bank's internal control environment, key operational processes and risk mitigants; and
- directly links the risk scenarios to operational risk capital.

The Banking Group's operating risk capital is calculated using the Ultimate Parent Bank’s methodology, but with standalone New Zealand inputs to ensure there are no diversification benefits.

The Banking Group does not incorporate any insurance mitigation impact into its capital number. Accordingly, there are no insurance related questions contained within the Risk Scenario Methodology.

Controls surrounding credit risk rating systems

The term “Rating Systems” covers all of the methods, processes, controls, data collection and technology that support the assessment of credit risk, the assignment of internal credit risk ratings and the quantification of associated default and loss estimates.

All material aspects of the Rating Systems and risk estimate processes are governed by the Banking Group’s Risk Committee. Risk grades are an integral part of reporting to senior management and executives. Management and staff of credit risk functions, in conjunction with the relevant Retail and Wholesale Risk Committees, regularly assess the performance of the rating systems, identify any areas for improvement and monitor progress on previously identified development work needed.

The Banking Group's Rating Systems are governed by a comprehensive framework of controls that operate at the business unit and support centres, and through central audit and validation processes. All policies, model designs, model reviews, methodologies, validations, responsibilities, systems and processes supporting the ratings systems are fully documented.

The Banking Group's Retail and Wholesale ratings functions work closely with the Ultimate Parent Bank's risk ratings functions, are independent of operational lending activities and are responsible for the ratings strategies and ongoing management of credit risk models within New Zealand. The annual review of models used across the Banking Group is a function undertaken by the ANZ Decision Model Validation Unit, which is also independent of credit risk operational functions and is responsible for overseeing the design, implementation and performance of all rating models in the Banking Group.

The target approach to modelling for the Banking Group is to deploy the model most suitable for the environment. At present this involves an approach to modelling that combines models developed in New Zealand and models developed by the Ultimate Parent Bank, tested and validated for use in New Zealand, as appropriate.

DIRECTORS' STATEMENT

As at the date on which this Disclosure Statement is signed, after due enquiry, each Director believes that:

- The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014; and
- The Disclosure Statement is not false or misleading.

Over the year ended 30 September 2018, after due enquiry, each Director believes that:

- ANZ Bank New Zealand Limited has complied with all Conditions of Registration that applied during that period except as noted on page 65;
- Credit exposures to connected persons were not contrary to the interests of the Banking Group; and
- ANZ Bank New Zealand Limited had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated, and has been signed by all Directors of the Bank on, 15 November 2018.

Antony Carter

Shayne Elliott

David Hisco

Michelle Jablko

Rt Hon Sir John Key, GNZM AC

Mark Verbiest

Joan Withers

INDEPENDENT AUDITOR'S REPORT

KPMG

TO THE SHAREHOLDER OF ANZ BANK NEW ZEALAND LIMITED

REPORT ON THE BANKING GROUP DISCLOSURE STATEMENT

OPINION

In our opinion, the accompanying consolidated financial statements of ANZ Bank New Zealand Limited and its subsidiaries (the Banking Group) on pages 4 to 56:

- give a true and fair view of the Banking Group's financial position as at 30 September 2018 and its financial performance and cash flows for the year ended on that date; and
- comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards.

In our opinion, the Registered Bank disclosures that are required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order) and is included in section, B2, B3, B5, B6, B7 and B8 of the Disclosure Statement:

- have been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration;
- are in accordance with the books and records of the Banking Group in all material respects; and
- fairly states the matters to which it relates in accordance with those schedules.

We have audited the accompanying consolidated financial statements and registered bank disclosures in section B2, B3, B5, B6, B7 and B8 which comprise:

- the consolidated statement of financial position as at 30 September 2018;
- the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended;
- notes, including a summary of significant accounting policies and other explanatory information; and
- the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISA's (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISA (NZ) are further described in the Auditor's Responsibilities for the audit of the consolidated financial statements and registered bank disclosures in section B2, B3, B5, B6, B7 and B8 section of our report.

Our firm has also provided other services to the Banking Group in relation to review of regulatory returns, internal controls reports, prospectus assurance or reviews and agreed upon procedures engagements. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

PROVISION FOR CREDIT IMPAIRMENT AND DISCLOSURES FOR THE EXPECTED IMPACT OF NZ IFRS 9 *FINANCIAL INSTRUMENTS*

The Key Audit Matter

The provision for credit impairment is a key audit matter as the Banking Group has significant credit risk exposure to a large number of counterparties across a wide range of lending and industries. The value of loans and advances on the balance sheet is significant and there is a high degree of complexity and judgement involved for the Banking Group in estimating individual and collective credit impairment provisions against these loans. These features resulted in significant audit effort to address the risks around loan recoverability and the determination of related provisions.

In preparation for adoption of NZ IFRS 9 *Financial Instruments* on 1 October 2018, the Banking Group disclosed the expected impact of adoption. This added effort to our audit due to the complexity of the accounting standard and its expected pervasive impact on the industry. We focused on the Banking Group's disclosure of the expected impact of measuring expected credit losses (ECLs) on loans and advances and the significant judgement exercised by the Banking Group. The Banking Group's models to calculate ECLs are inherently complex, and judgement is applied in determining the correct construct of the models. There are also a number of key assumptions made by the Banking Group in applying the accounting standard requirements to the models, including the selection and input of forward-looking information.

How the matter was addressed in our audit

Our audit procedures for the individual and collective provision for credit impairment and disclosures for the expected impact of NZ IFRS 9 *Financial Instruments* applicable on 1 October 2018 included:

Provisions against specific individual loans (individual provision)

- Testing the key controls over counterparty risk grading for wholesale loans (larger customer exposures that are monitored individually). We tested the approval of new lending facilities against the Banking Group's lending policies, the performance of annual loan assessments, and controls over the monitoring of counterparty credit quality. This included testing controls over the identification of exposures showing signs of stress, either due to internal factors specific to the counterparty or external macroeconomic factors, and testing the timeliness of and the accuracy of counterparty risk assessments and risk grading against the requirements of the Banking Group's lending policies;
- Performing credit assessments of a sample of wholesale loans managed by the Banking Group's specialist workout and recovery team assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Banking Group as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions). We challenged the Banking Group's risk grading of the loan, their assessment of loan recoverability and the impact on the credit provision. To do this, we reviewed the information on the Banking Group's loan file, discussed the case with the loan officer and management, and performed our own assessment of recoverability. This involved using our understanding of relevant industries and the macroeconomic environment, and comparing assumptions of inputs used by the Banking Group in recoverability assessments to externally sourced evidence, such as commodity prices, publicly available audited financial statements, and comparable external valuations of collateral held; and
- Evaluating the Banking Group's oversight of retail loan portfolios (smaller customer exposures not monitored individually), with a focus on controls over delinquency statistics monitoring. We tested a sample of provisions held against different loan products, based on their delinquency profile, and challenged assumptions made in respect of expected recoveries, primarily from collateral held.

Provisions estimated across loan portfolios (collective provision)

- Testing the Banking Group's processes to validate the models used to calculate collective provisions, and evaluating the Banking Group's model methodologies against established market practices and criteria in the accounting standards;
- Testing the key controls within IT systems used to calculate the collective provision, specifically those relating to data management and the completeness and accuracy of data transfer from underlying source systems to the collective provision models;
- Testing the accuracy of key inputs into models by checking a sample of balances to the general ledger and risk ratings to source systems;
- Challenging the key assumptions in the models such as emergence periods, probability of default and loss given default for a sample of retail and wholesale portfolios. We compared modelled estimates against actual losses incurred by the Banking Group; and
- Re-performing the calculation of collective provisions, for a sample of retail and wholesale portfolios and using a KPMG-constructed calculation tool to determine the accuracy of model output.

We also challenged key assumptions in the components of the Banking Group's collective provision balance held above modelled provision estimates. This included:

- Evaluating inputs to the concentration risk and economic cycle provisions by comparing underlying portfolio characteristics to loss experience, current market conditions and specific risks inherent in the Banking Group's loan portfolios;
- Assessing the requirement for other additional provisions by considering model or data deficiencies identified by the Banking Group's model validation processes; and
- Assessing the completeness of additional provisions by checking the consistency of risks identified in the portfolios to their inclusion in the Banking Group's assessment.

NZ IFRS 9 Financial Instruments

We assessed the Banking Group's disclosures for the expected impact of NZ IFRS 9 *Financial Instruments* which is applicable on 1 October 2018. Together with KPMG credit risk and economics specialists, our procedures included:

- Assessing the Banking Group's significant accounting policies against the requirements of the accounting standard;
- Assessing the Banking Group's ECL modelling methodology and for a sample of models testing key credit modelling assumptions incorporated in the ECL models against the requirements of the standard and underlying accounting records;
- Assessing forward-looking economic assumptions and the development of economic scenarios against external economic information, and the application into the ECL models;
- Testing data reconciliation controls between the ECL models and source systems;
- Testing the accuracy of the modelled calculations by re-performing the ECL calculations on a sample basis;
- Assessing the disclosures in the financial statements against the requirements of NZ IFRS.

VALUATION OF FINANCIAL INSTRUMENTS

The Key Audit Matter

Financial instruments held at fair value on the Banking Group's balance sheet include available-for-sale assets, trading securities, derivative assets and liabilities, investments backing insurance contract liabilities, certain debt securities, and other assets and liabilities designated as measured at fair value through profit or loss.

INDEPENDENT AUDITOR'S REPORT

The instruments are mainly risk management products sold to customers and used by the Banking Group to manage its own interest rate and foreign exchange risk.

The valuation of financial instruments held at fair value is considered a Key Audit Matter due to:

- Financial instruments held at fair value are significant (15% of assets and 7% of liabilities);
- The significant volume and range of products transacted, increases the risk of inconsistencies in transaction management processes that could lead to inaccurate valuation;
- Determining the fair value of trading securities and derivatives involves a significant level of judgement by the Banking Group, increasing the risk of error, and adding complexity to our audit. The level of judgement increases where internal models, as opposed to quoted market prices, are used to determine fair value of an instrument; and
- The valuation of certain derivatives held by the Banking Group is sensitive to inputs including credit risk, funding rates, probabilities of default and loss given default, and industry practice is evolving as to how the impact of both funding and credit risk is incorporated within the valuation of certain derivative instruments. This increased our audit effort in this area and necessitated the involvement of valuation specialists.

How the matter was addressed in our audit

Our audit procedures for the valuation of financial instruments held at fair value included:

- Testing access rights and change management controls for key valuation systems;
- Testing interface controls, notably the completeness and accuracy of data transfers between transaction processing systems, key systems used to generate valuations and any related valuation adjustments, and the Banking Group's market risk management and finance systems to identify inconsistencies in transaction management and valuation processes across products;
- Testing the governance and approval controls such as management review and approval of the valuation models and approval of new products against policies and procedures;
- Testing the front office management review and approval of the daily financial instrument trading profit and loss reconciliations prepared by the Banking Group's independent product control function;
- Testing the management review and approval of model construction and validation, aimed at assessing the validity and robustness of underlying valuation models; and
- Testing the Banking Group's data validation controls, such as those over key inputs in generating the fair value to market data where fair values were determined by front office teams.

We tested the valuation of financial instruments with both observable and unobservable inputs. Our specific testing involved valuation specialists and included:

- Re-performing the valuation of 'level 1' and 'level 2' available for sale assets and trading securities, which are primarily government, semi-government and corporate debt securities, by comparing the observable inputs, including quoted prices, to independently sourced market data;
- Using independent models, re-calculating the valuation of a sample of derivative assets and liabilities where the fair value was determined using observable inputs. This included comparing a sample of observable inputs used in the Banking Group's derivative valuations to independently-sourced market data, such as interest rates, foreign exchange rates and volatilities;
- Where the fair value of derivatives and other financial assets and liabilities were determined using unobservable inputs ('level 3' instruments), challenging the Banking Group's valuation model by testing the key inputs used to comparable data in the market, including the use of proxy instruments and available alternatives. We compared the Banking Group's valuation methodology to industry practice and the criteria in the accounting standards; and
- Evaluating the appropriateness of the Banking Group's valuation methodology for derivative financial instruments, having regard to current and emerging derivative valuation practices across a range of peer institutions and against the required criteria in the accounting standards. We tested adjustments made to valuations, particularly funding and credit valuation adjustments on un-collateralised derivatives. In particular, for a sample of individual counterparties, we tested key inputs to the credit valuation adjustment calculation, including the probability of default, against observable market data. Where proxies were used, we assessed the proxy against available alternatives across a number of locations.

IT SYSTEMS AND CONTROLS

The Key Audit Matter

As a major New Zealand bank, the Banking Group's businesses utilise a large number of complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of a financial report which provides a true and fair view of the Banking Group's financial position and performance. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Banking Group's IT controls. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

How the matter was addressed in our audit

We tested the control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems. Our audit procedures included:

- Testing the governance controls used by the Banking Group's technology teams and third party suppliers to monitor system integrity, by checking matters impacting the operational integrity of core systems for escalation and action in accordance with the Banking Group's policies;
- Testing the access rights given to staff by checking them to approved records, and inspecting the reports over the granting and removal of access rights. We also looked for evidence of escalation of breaches;
- Testing preventative controls designed to enforce segregation of duties between users within particular systems;
- Testing the operating effectiveness of automated controls, principally relating to the automated calculation of financial transactions. We tested

the inputs used within automated calculations to source data and also tested the accuracy of the calculation logic for a sample of transactions within each identified control; and

- Testing the operating effectiveness of automated reconciliation controls, both between systems and intra-system. For a sample of identified breaks, in reconciliations, we checked that these were recorded on exception reports, and subsequently investigated and cleared by the Banking Group.

OTHER INFORMATION

The Directors, on behalf of the Banking Group, are responsible for the General Disclosures required to be included in the Banking Group's Disclosure Statement in accordance with Schedule 2 of the Order (section B1).

Our opinion on the consolidated financial statements does not cover section B1 or the Supplementary Information relating to the Bank Financial Strength Dashboard and other information included on pages 89-92 (collectively referred to as 'other information') and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the Banking Group, as far as appears from our examination of those records.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B2, B3, B5, B6, B7 AND B8

The Directors, on behalf of the Banking Group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with Clause 24 of the Order, NZ IFRS and International Financial Reporting Standards;
- the preparation and fair presentation of supplementary information, in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal controls to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B2, B3, B5, B6, B7 AND B8

Our objective is:

- to obtain reasonable assurance about whether the Disclosure Statement, including the consolidated financial statements prepared in accordance with Clause 24 of the Order, and registered bank disclosures in section B2, B3, B5, B6, B7 and B8, prepared in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Independent Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

INDEPENDENT AUDITOR'S REPORT

REVIEW CONCLUSION ON THE REGISTERED BANK DISCLOSURES IN SECTION B4 RELATING TO CAPITAL ADEQUACY AND REGULATORY LIQUIDITY RATIOS (B4)

Based on our review, nothing has come to our attention that causes us to believe that the information relating to Capital Adequacy and Regulatory Liquidity Ratios, disclosed in section B4 of the Disclosure Statement, is not, in all material respects disclosed in accordance with Schedule 11 of the Order.

We have reviewed the registered bank disclosures as disclosed in section B4 of the Disclosure Statement for the year ended 30 September 2018. The registered bank disclosures that is required to be disclosed in accordance with Schedule 11 of the Order.

BASIS FOR CONCLUSION ON THE REGISTERED BANK DISCLOSURES IN SECTION B4

A review of the registered bank disclosures in section B4 in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410) is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our responsibilities under that standard are further described in the Auditor's Responsibilities for the review of the registered bank disclosures in section B4 of our report.

As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

RESPONSIBILITIES OF DIRECTORS FOR THE REGISTERED BANK DISCLOSURES IN SECTION B4

The Directors are responsible for the preparation of registered bank disclosures in section B4 that is required to be prepared and disclosed in accordance with Schedule 11 of the Order and described in section B4 to the Disclosure Statement.

AUDITOR'S RESPONSIBILITIES FOR THE REVIEW OF THE REGISTERED BANK DISCLOSURES IN SECTION B4

Our responsibility is to express a conclusion on the registered bank disclosures in section B4 based on our review. We conducted our review in accordance with NZ SRE 2410 issued by the New Zealand External Reporting Board. As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and plan and perform the review to obtain limited assurance about whether the registered bank disclosures in section B4 is, in all material respects, disclosed in accordance with Schedule 11 of the Order.

A review of the registered bank disclosures in section B4 in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

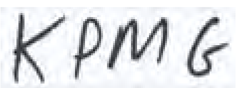
The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the registered bank disclosures in section B4.

USE OF THE INDEPENDENT AUDITOR'S REPORT

This Independent Auditor's Report is made solely to the shareholder as a body. Our work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the Independent Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our work, this report, or any of the opinions or conclusions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Matthew Prichard.

For and on behalf of



KPMG
Auckland

15 November 2018

BANK FINANCIAL STRENGTH DASHBOARD

This section does not form part of the Disclosure Statement. It contains information in respect of the Banking Group included on the Bank Financial Strength Dashboard (Dashboard) published on RBNZ's website. There is no requirement for the Directors to review or approve this information.

Amounts below may differ slightly from those published by RBNZ due to rounding differences. The tables include reconciliations to amounts included in the Disclosure Statement where there are classification differences between the financial statements and the Dashboard.

Dashboard

Other information

BANK FINANCIAL STRENGTH DASHBOARD

D1. CREDIT RATINGS

As at 30 September 2018	Credit rating
S&P Global	AA-
Fitch	AA-
Moody's	A1

D2. CAPITAL ADEQUACY

Capital ratios

As at 30 September 2018	
Total capital ratio	14.4%
Common equity tier 1 (CET1) capital ratio	11.1%
Tier 1 capital ratio	14.4%
Buffer ratio	6.4%
Total capital ratio regulatory minimum	8.0%

Capital

As at 30 September 2018	NZ$m
CET1 capital	12,809
CET1 deductions	(3,728)
Net CET1 capital	9,081
Total additional tier 1 capital	2,776
Total tier 1 capital	11,857
Total capital	11,857

Risk weighted assets

		Classification differences			
As at 30 September 2018	Disclosure Statement NZ$m	Default exposures NZ$m	Credit valuation adjustments NZ$m	Exposure categories NZ$m	Dashboard NZ$m
Sovereign / quasi-sovereign	170	-	(46)	-	124
Public sector entities	-	-	(325)	669	344
Registered banks	3,112	-	(576)	(669)	1,867
Corporates	27,103	(658)	(892)	10,724	36,277
Retail / Residential mortgages	16,998	(42)	-	-	16,956
Other retail	8,705	(42)	-	(8,663)	-
Specialised lending exposures subject to slotting approach	10,783	-	(59)	(10,724)	-
Exposures subject to standardised approach	528	-	-	(528)	-
Problem loans	-	742	-	-	742
Equity holdings	28	-	-	-	28
Credit risk supervisory adjustment	-	-	-	2,325	2,325
All other assets	1,592	-	1,898	9,191	12,681
Credit risk	69,019	-	-	2,325	71,344
Market risk	4,776	-	-	-	4,776
Operational risk	6,027	-	-	-	6,027
Agri business supervisory adjustment	2,325	-	-	(2,325)	-
Total risk weighted assets	82,147	-	-	-	82,147

D3. ASSET QUALITY

As at 30 September 2018	Housing NZ$m	Consumer NZ$m	Business NZ$m	Agriculture NZ$m	All other NZ$m	Total NZ$m
Total loans	75,847	3,574	28,821	17,427	1,389	127,058
Impaired loans	35	11	76	154	45	321
Loans 90 days past due but not impaired	151	24	27	3	-	205
Total non-performing loans	186	35	103	157	45	526
Non-performing loans ratio (%)	0.25%	0.98%	0.36%	0.90%	3.24%	0.41%
Individual provisions	8	6	45	35	36	130
Collective provisions	72	64	92	43	111	382
On-balance sheet residential mortgage exposures with LVRs that:						
Exceeds 80% and not 90%						3.4%
Exceeds 90%						1.7%

A reconciliation of the amounts in this table to the financial statements is included in the Other Information on page 92.

D4. PROFITABILITY / PERFORMANCE

	Financial statements		Classification differences	
	For the 12 months ended 30 September 2018	Less: For the 9 months ended 30 June 2018	Funds management income and other commissions	Dashboard
	NZ$m	NZ$m	NZ$m	NZ$m
Interest income	6,390	(4,767)	-	1,623
Interest expense	3,240	(2,415)	-	825
Net interest income	3,150	(2,352)	-	798
Gains/losses on trading and hedging	250	(158)	-	92
Fee and commission income	394	(300)	69	163
All other income	482	(368)	(69)	45
Operating expenses	1,517	(1,121)	-	396
Impaired asset expense	55	(78)	-	(23)
Profit before tax	2,704	(1,979)	-	725
Tax expense	751	(547)	-	204
Profit after tax	1,953	(1,432)	-	521
Return on assets (%)				1.3%
Return on equity (%)				15.6%
Net interest margin (%)				2.2%

D5. FINANCIAL POSITION

		Classification differences			
	Financial statements	Other bank deposits and other assets	Securities purchased under agreements to re-sell	Subordinated debt issued to NZ Branch	Dashboard
As at 30 September 2018	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m
Cash and bank deposits[1]	4,119	40	(136)	-	4,023
Debt securities held[2]	14,653	(78)	-	-	14,575
Net loans and advances	126,466	-	-	-	126,466
Derivatives in an asset position	8,086	-	-	-	8,086
All other assets	5,688	38	136	-	5,862
Total assets	159,012	-	-	-	159,012
Deposits	104,055	-	-	-	104,055
Debt securities issued[3]	28,531	-	-	(1,941)	26,590
Other borrowings[4]	1,402	1,336	-	1,941	4,679
Derivatives in a liability position	8,095	-	-	-	8,095
All other liabilities	3,820	(1,336)	-	-	2,484
Total liabilities	145,903	-	-	-	145,903
Equity	13,109	-	-	-	13,109

1 Comprises cash and collateral paid
2 Comprises trading securities, investments backing insurance contract liabilities and available-for-sale assets
3 Comprises debt issuances plus certificates of deposit and commercial paper from deposits and other borrowings
4 Comprises collateral received and the remaining items of deposits and other borrowings

D6. LIQUIDITY

3 months to 30 September 2018	
Quarterly average core funding ratio	89.5%
Quarterly average 1-month mismatch ratio	5.1%
Quarterly average 1-week mismatch ratio	5.3%

D7. LARGE EXPOSURES

As at 30 September 2018	
Top 5 credit exposures to non-bank counterparties as a ratio of CET1 capital	51.3%
Credit exposures to non-bank counterparties that are greater than 10% of CET1 capital	2
Top 5 credit exposures to banks as a ratio of CET1 capital	48.4%
Credit exposures to banks that are greater than 10% of CET1 capital	3

OTHER INFORMATION

Reconciliation of total loans by industry and sector

The financial statements and Dashboard include amounts for total loans which are based on different definitions. The table below reconciles the various amounts. This information does not form part of the Disclosure Statement.

Housing loans and residential mortgage definitions

Housing loans comprise loans for owner occupier property use and residential investor property use. Owner occupiers are borrowers who own or are in the process of buying or building the house or flat they will live in as their principal place of residence. An owner can occupy more than one property e.g. a family home and a holiday home. Only households can have owner occupier property use loans. Investors are entities or persons borrowing for the purpose of building or purchasing residential property to rent. This includes 'Mum and dad' investor loans and any person(s) that have a separate residential investor property use loan which is not for their normal business purpose.

Residential mortgage exposures used in the loan-to-valuation ratio analysis are based on the definition of residential mortgage loans as defined in the Banking Supervision Handbook document *Capital Adequacy Framework (internal models based approach)* (BS2B). This metric is based on a collateral definition and may include some other lending that is not defined as Housing lending in the asset quality section of the Dashboard. See the Banking Supervision Handbook for a more detailed definition.

As at 30 September 2018	Note	Housing NZ$m	Consumer NZ$m	Business NZ$m	Agriculture NZ$m	All other[1] NZ$m	Total NZ$m
Total loans per Balance Sheet	11	78,395	n/a	n/a	n/a	48,509	126,904
Fair value hedge adjustment		(10)	-	-	-	10	-
Business loans secured by residential property		(2,538)	-	-	317	2,221	-
Residential investor property		(21,101)	-	-	49	21,052	-
Other household and agriculture industry loans		-	3,574	-	17,478	(21,052)	-
Concentration of loans by industry[2]	15	54,746	3,574	-	17,844	50,740	126,904
Fair value hedge adjustments		-	-	-	-	(10)	(10)
Unearned income on finance leases		-	-	-	-	(204)	(204)
Deposit components of overdraft product		-	-	-	-	368	368
Residential investor property		21,101	-	-	(49)	(21,052)	-
Business lending		-	-	28,462	(51)	(28,411)	-
Loans by purpose (RBNZ series S31)		75,847	3,574	28,462	17,744	1,431	127,058
Other business loans secured by residential property		-	-	359	(317)	(42)	-
Total loans per Dashboard	D3	75,847	3,574	28,821	17,427	1,389	127,058

1 All other in RBNZ series S31 and the Dashboard comprises: Depository and other financial institutions, Central and Local Government, Non-profit institutions serving households.
2 Household exposures (resident and non-resident) in Note 15 Financial Risk Management (Concentrations of Credit Risk) on page 32 comprise Housing and Consumer.

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anz.co.nz

Annex A-1-ANZNIL Financial Statements

Contents

ANZ NEW ZEALAND (INT'L) LIMITED
ANNUAL ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	Note	2019 NZ$m	2018 NZ$m
Interest income	6	418	382
Interest expense	2	(410)	(374)
Net interest income		8	8
Operating expenses		-	(1)
Profit before credit impairment and income tax		8	7
Credit impairment charge		(1)	-
Profit before income tax		7	7
Income tax expense	3	(2)	(2)
Profit after income tax		5	5

There are no items of other comprehensive income.

BALANCE SHEET

As at 30 September	Note	2019 NZ$m	2018 NZ$m
Assets			
Due from the Parent Company	6	22,183	21,314
Total assets		22,183	21,314
Liabilities			
Accrued interest payable		23	40
Commercial paper	4	2,460	2,486
Current tax liabilities		1	1
Payables and other liabilities		-	1
Debt issuances	5	19,691	18,781
Total liabilities		22,175	21,309
Net assets		8	5
Equity			
Retained profits		8	5
Total equity	8	8	5

These annual accounts were approved by the Board of Directors on 16 December 2019.

For and on behalf of the Board of Directors:

Penny Dell
Director
16 December 2019

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

CASH FLOW STATEMENT

For the year ended 30 September	2019 NZ$m	2018 NZ$m
Cash flows from operating activities		
Interest received	435	377
Interest paid	(427)	(370)
Operating expenses	(1)	-
Tax paid	(2)	(2)
Net cash flows provided by operating activities	5	5
Cash flows from investing activities		
Decrease / (increase) in due from the Parent Company	(67)	1,667
Net cash flows provided by / (used in) investing activities	(67)	1,667
Cash flows from financing activities		
Proceeds from debt issuances	3,300	2,510
Decrease in commercial paper	(221)	(1,457)
Redemption of debt issuances	(3,017)	(2,720)
Dividends paid	-	(5)
Net cash flows provided by / (used in) financing activities	62	(1,672)
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the year	-	-
Cash and cash equivalents at end of the year	-	-

Reconciliation of profit after income tax to net cash flows provided by operating activities		
Profit after income tax	5	5
Non-cash items:		
Credit impairment charge	1	-
Other adjustments:		
Change in accrued interest receivable	17	(5)
Change in accrued interest payable	(17)	4
Increase / (decrease) in payables and other liabilities	(1)	1
Net cash flows provided by operating activities	5	5

STATEMENT OF CHANGES IN EQUITY

	Note	Retained earnings NZ$m	Total equity NZ$m
As at 1 October 2017		5	5
Profit or loss		5	5
Ordinary dividend paid	8	(5)	(5)
As at 30 September 2018		5	5
As at 1 October 2018		5	5
Impact on transition to NZ IFRS 9	1	(2)	(2)
As at 1 October 2018 (adjusted)		3	3
Profit or loss		5	5
As at 30 September 2019		8	8

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Tax Administration Act 1994 (New Zealand) and The Overseas Companies Regulations 2009 (United Kingdom), and comply with:

- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 2013
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities
- International Financial Reporting Standards (IFRS).

These financial statements have been audited in accordance with International Standards on Auditing (New Zealand), as issued by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board.

ANZ New Zealand (Int'l) Limited (the Company) is incorporated in New Zealand under the Companies Act 1993. Its registered office is, Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, 1010, Auckland. The Company is a wholly owned subsidiary of ANZ Bank New Zealand Limited (the Parent Company) and the ultimate parent company is Australia and New Zealand Banking Group Limited, which is incorporated in Victoria, Australia.

The principal accounting policies adopted in the preparation of the financial statements are set out below.

(ii) Use of estimates and assumptions

The preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates.

(iii) Basis of measurement

These financial statements have been prepared on a going concern basis in accordance with historical cost concepts.

(iv) Rounding

The amounts contained in the financial statements have been rounded to the nearest million dollars, except where otherwise stated.

(v) Changes in accounting policies

Refer to Note 1(f) for accounting standards adopted in the period. There have been no other changes in accounting policies or early adoption of accounting standards in the preparation and presentation of the financial statements.

(vi) Foreign currency translation

Functional and presentation currency

The financial statements are presented in New Zealand dollars, which is the Company's functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they were initially recognised or included in a previous financial report, are recognised in the statement of comprehensive income in the period in which they arise.

(b) Income and expense recognition

Interest income and interest expense are recognised in the statement of comprehensive income as they accrue, using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability. The application of the method has the effect of recognising income and expense on the financial asset or liability evenly in proportion to the amount outstanding over the period to maturity or repayment.

(c) Income tax

(i) Income tax expense

Income tax on profits for the period comprises current and deferred tax. It is recognised in the statement of comprehensive income as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity.

(ii) Current tax

Current tax is the expected tax payable on taxable income for the period, based on tax rates (and tax laws) which are enacted or substantively enacted by the reporting date and including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Recognition and derecognition of financial assets and financial liabilities

(i) Recognition

Financial assets include amounts due from the Parent Company. Financial liabilities include commercial paper and debt issuances.

The Company recognises a financial asset or liability on its balance sheet when, and only when, the Company becomes a party to the contractual provisions of the financial asset or liability. Financial assets and financial liabilities are initially recognised at fair value including directly attributable transaction costs and subsequently measured at amortised cost.

(ii) Derecognition

The Company derecognises a financial asset from its balance sheet when, and only when, (i) the contractual rights to the cash flows from the financial asset expire, or (ii) the Company has transferred all or substantially all of the risks and rewards of ownership of the financial asset and no longer controls the financial asset. The Company derecognises a financial liability from its balance sheet, when and only when, it is extinguished.

(e) Presentation

(i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where gains and losses from a group of similar transactions are reported on a net basis such as foreign exchange gains and losses;
- where amounts are collected on behalf of third parties, where the Company is, in substance, acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Company is reimbursed.

(ii) Offsetting of assets and liabilities

Assets and liabilities are offset and the net amount reported in the balance sheet only where:

- there is a current enforceable legal right to offset the asset and liability; and
- there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(iii) Cash flow statement

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and immediately lent to the Parent Company.

(iv) Segment reporting

Business segments are distinguishable components of the Company that provide products or services that are subject to risks and rewards that are different to those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments.

As the principal activity of the Company is the raising of external funding, which is on-lent to the Parent Company at a margin, and the majority of its revenue is not earned from external customers, the Company does not have any reportable segments.

(f) Accounting standards adopted in the period

NZ IFRS 9 *Financial Instruments* (NZ IFRS 9)

The Company has applied NZ IFRS 9 from 1 October 2018. NZ IFRS 9 addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks.

The application of NZ IFRS 9 as at 1 October 2018 resulted in higher aggregate impairment provisions (included in Due from Parent Company) of approximately NZ$2 million, and the impact on total equity is a reduction of approximately NZ$2 million.

2. INTEREST EXPENSE

	2019 NZ$m	2018 NZ$m
Commercial paper	68	51
Debt issuances	342	323
Total interest expense	**410**	374

3. INCOME TAX

	2019 NZ$m	2018 NZ$m
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	7	7
Prima facie income tax at 28%	2	2
Total income tax expense	**2**	2
Amounts recognised in the statement of comprehensive income		
Current tax	2	2
Total income tax expense recognised in the statement of comprehensive income	**2**	2

NOTES TO THE FINANCIAL STATEMENTS

4. COMMERCIAL PAPER

	2019 NZ$m	2018 NZ$m
U.S. commercial paper	**2,460**	2,486
Total commercial paper	**2,460**	2,486

Commercial paper issued is guaranteed by the Parent Company.

5. DEBT ISSUANCES

	2019 NZ$m	2018 NZ$m
U.S. medium term notes	**9,989**	10,213
Euro medium term notes	**5,332**	4,610
Covered bonds	**4,370**	3,958
Total debt issued	**19,691**	18,781

Debt issuances are guaranteed by the Parent Company. Debt issuances, other than covered bonds, are otherwise unsecured and rank equally with other unsecured liabilities.

Covered Bonds

Substantially all of the assets of the ANZNZ Covered Bond Trust (the Trust) are made up of certain housing loans and related securities originated by the Parent Company which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Trust for issuances of covered bonds by the Company, or the Parent Company, from time to time. The assets of the Trust are not available to creditors of the Company or the Parent Company, although the Company or the Parent Company (or its liquidator or statutory manager) may have a claim against the residual assets of the Trust (if any) after all prior ranking creditors of the Trust have been satisfied.

6. RELATED PARTY TRANSACTIONS

Transactions with other related parties

The Company undertakes transactions with the Parent Company and other members of the Australia and New Zealand Banking Group Limited group of companies (ANZ Group). These transactions principally consist of funding transactions. Other members of the ANZ Group provide administrative functions, including remuneration of key management personnel, to the Company for which no payments have been made.

All interest income is from the Parent Company. Audit fees and fees for other services have been paid to the auditors by the Parent Company without reimbursement.

	2019 NZ$000	2018 NZ$000
Audit or review of financial statements	**38**	38
Other services:		
Review of offer documents	**111**	104
Other assurance services	**17**	16
Total other services	**128**	120
Total fees paid to auditors by the Parent Company	**166**	158

Balances with related parties

Amounts due from the Parent Company are lent on similar terms as the underlying funding raised, and are net of an allowance for expected credit losses of NZ$3 million (On initial application of NZ IFRS 9 on 1 October 2018: NZ$2 million, as at 30 September 2018: nil). The change in the allowance for expected credit losses for the year ended 30 September 2019 was a charge of NZ$1 million (2018: nil).

As at 30 September 2019, ANZ Group held NZ$4 million (2018: NZ$15 million) of the Company's debt issuances.

7. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following is an analysis of asset and liability line items in the balance sheet that combine amounts expected to be realised or due to be settled within one year and after more than one year.

	2019			2018		
	within one year NZ$m	after more than one year NZ$m	Total NZ$m	within one year NZ$m	after more than one year NZ$m	Total NZ$m
Assets						
Due from Parent Company	5,388	16,795	22,183	5,575	15,739	21,314
Liabilities						
Debt issuances	2,896	16,795	19,691	3,042	15,739	18,781

8. EQUITY

Capital management policies

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide funding for the Parent Company and to maintain an optimal capital structure to reduce the cost of capital.

The Company's capital comprises issued share capital and retained earnings. The Company manages its capital by distributing its retained profits to the Parent Company.

Ordinary share capital

The Company's share capital consists of 500,000 (2018: 500,000) fully paid ordinary shares that have the rights and powers prescribed by Section 36 of the Companies Act 1993. The shares have a carrying value of $499,900.

There were no dividends paid on ordinary shares during the year (2018: $9.79 per share).

9. FINANCIAL RISK MANAGEMENT

Financial instruments are entered into by the Company in its operations as a financial intermediary. The Company's operations are matched funded to minimise interest rate, currency and liquidity risks.

There are no material off balance sheet instruments. All aspects of risk are managed within a framework of policies, limits, control procedures, systems and reporting. Risk exposures are independently monitored and controlled within predefined limits, with an internal reporting framework in place.

Credit risk

Credit risk is the potential that the counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract, thus causing loss.

The Company's principal exposure is to the Parent Company and the carrying amount represents the Company's maximum and net exposure to credit risk.

Market risk

Interest rate risk

Interest rate risk relates to the potential adverse impact of changes in market interest rates on future net interest income of the Company.

The Company manages its interest rate risk by matching interest rates and tenors on its financial liabilities with the interest rates and tenors on its financial assets with the Parent Company. As a result a 1% rate shock would not have any impact on profit or loss.

Currency risk

Currency risk arises from changes in foreign exchange rates impacting on residual currency positions that may result from the Company's business as a financial intermediary.

Currency risk is monitored in terms of open positions to each currency, based on nominal value and the duration of each exposure. The total amount of foreign currency exposures, whether recognised or unrecognised, within each currency is not material.

NOTES TO THE FINANCIAL STATEMENTS

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations on commercial paper and debt issuances when they fall due.

The Company manages its liquidity rate risk by matching interest rates and tenors on its financial liabilities with the interest rates and tenors on its financial assets with the Parent Company.

The table below provides residual contractual maturity analysis of financial liabilities at 30 September within relevant maturity groupings. All outstanding debt issuance is profiled on the earliest date on which the Company may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reporting on balance sheet.

2019	Total NZ$m	Less than 3 months NZ$m	3-12 months NZ$m	1-5 years NZ$m	Beyond 5 years NZ$m	No specified maturity NZ$m
Liabilities						
Commercial paper	2,480	840	1,640	-	-	-
Debt issuances	20,910	9	3,232	13,330	4,339	-
Total financial liabilities	23,390	849	4,872	13,330	4,339	-
2018						
Commercial paper	2,506	986	1,520	-	-	-
Debt issuances	20,011	901	2,470	12,982	3,658	-
Payables and other liabilities	1	1	-	-	-	-
Total financial liabilities	22,518	1,888	3,990	12,982	3,658	-

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

No assets or liabilities are carried at fair value. The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments and include the following:

- for accrued interest payable, the carrying amount is equivalent to the fair value.
- for all other financial assets and financial liabilities, estimated fair values are based on market rates.

Below is a comparison of the carrying amounts as reported on the balance sheet and fair value of financial asset and liability categories other than those categories where the carrying amount is considered a reasonable approximation of fair value:

	2019		2018	
	Carrying amount NZ$m	Fair value NZ$m	Carrying amount NZ$m	Fair value NZ$m
Financial assets				
Due from the Parent Company	22,183	22,624	21,314	21,092
Financial liabilities				
Commercial paper	2,460	2,461	2,486	2,486
Debt issuances	19,691	20,131	18,781	18,559

Independent Auditor's Report

To the shareholder of ANZ New Zealand (Int'l) Limited

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of ANZ New Zealand (Int'l) Limited (the 'Company') on pages 1 to 7:

i. present fairly in all material respects the Company's financial position as at 30 September 2019 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the balance sheet as at 30 September 2019;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the Company in relation to prospectus reviews and assurance services. These matters have not impaired our independence as auditor of the Company. We have no relationship with, or interests in, the Company.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Company, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/

This description forms part of our independent auditor's report.

KPMG

KPMG
Auckland

16 December 2019

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ANZ NEW ZEALAND (INT'L) LIMITED
ANNUAL ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2018

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	Note	2018 NZ$m	2017 NZ$m
Interest income	6	382	315
Interest expense	2	374	308
Total income		8	7
Operating expenses		1	-
Profit before income tax		7	7
Income tax expense	3	2	2
Profit after income tax		5	5

There are no items of other comprehensive income.

BALANCE SHEET

As at 30 September	Note	2018 NZ$m	2017 NZ$m
Assets			
Due from the Parent Company	6	21,314	21,263
Total assets		21,314	21,263
Liabilities			
Accrued interest payable		40	36
Commercial paper	4	2,486	3,719
Current tax liabilities		1	1
Payables and other liabilities		1	-
Debt issuances	5	18,781	17,502
Total liabilities		21,309	21,258
Net assets		5	5
Equity			
Retained profits		5	5
Total equity	8	5	5

For and on behalf of the Board of Directors:

Penny Dell
Director
30 November 2018

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

CASH FLOW STATEMENT

For the year ended 30 September	2018 NZ$m	2017 NZ$m
Cash flows from operating activities		
Interest received	377	339
Interest paid	(370)	(332)
Tax paid	(2)	(2)
Net cash flows provided by operating activities	5	5
Cash flows from investing activities		
Decrease in due from the Parent Company	1,667	525
Net cash flows provided by investing activities	1,667	525
Cash flows from financing activities		
Proceeds from debt issuances	2,510	4,097
Decrease in commercial paper	(1,457)	(1,658)
Redemption of debt issuances	(2,720)	(2,964)
Dividends paid	(5)	(5)
Net cash flows used in financing activities	(1,672)	(530)
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the year	-	-
Cash and cash equivalents at end of the year	-	-

Reconciliation of profit after income tax to net cash flows provided by operating activities		
Profit after income tax	5	5
Adjustments		
Change in accrued interest receivable	(5)	24
Change in accrued interest payable	4	(24)
Change in payables and other liabilities	1	-
Net cash flows provided by operating activities	5	5

STATEMENT OF CHANGES IN EQUITY

	Note	Retained earnings NZ$m	Total equity NZ$m
As at 1 October 2016		5	5
Profit after income tax		5	5
Ordinary dividend paid	8	(5)	(5)
As at 30 September 2017		5	5
Profit after income tax		5	5
Ordinary dividend paid	8	(5)	(5)
As at 30 September 2018		5	5

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Tax Administration Act 1994 (New Zealand) and The Overseas Companies Regulations 2009 (United Kingdom), and comply with:

- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 2013
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities
- International Financial Reporting Standards (IFRS).

These financial statements have been audited in accordance with International Standards on Auditing (New Zealand), as issued by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board

The principal accounting policies adopted in the preparation of the financial statements are set out below.

(ii) Use of estimates and assumptions

The preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates.

(iii) Basis of measurement

These financial statements have been prepared on a going concern basis in accordance with historical cost concepts.

(iv) Rounding

The amounts contained in the financial statements have been rounded to the nearest million dollars, except where otherwise stated.

(v) Changes in accounting policies

There have been no changes in accounting policies or early adoption of accounting standards in the preparation and presentation of the financial statements.

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Functional and presentation currency

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Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they were initially recognised or included in a previous financial report, are recognised in the statement of comprehensive income in the period in which they arise.

(b) Income and expense recognition

Interest income and interest expense are recognised in the statement of comprehensive income as they accrue, using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability. The application of the method has the effect of recognising income and expense on the financial asset or liability evenly in proportion to the amount outstanding over the period to maturity or repayment.

(c) Income tax

(i) Income tax expense

Income tax on profits for the period comprises current and deferred tax. It is recognised in the statement of comprehensive income as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity.

(ii) Current tax

Current tax is the expected tax payable on taxable income for the period, based on tax rates (and tax laws) which are enacted or substantively enacted by the reporting date and including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(d) Recognition and derecognition of financial assets and financial liabilities

(i) Recognition

Financial assets include amounts due from the Parent Company. Financial liabilities include commercial paper and debt issuances.

The Company recognises a financial asset or liability on its balance sheet when, and only when, the Company becomes a party to the contractual provisions of the financial asset or liability. Financial assets and financial liabilities are initially recognised at fair value including directly attributable transaction costs and subsequently measured at amortised cost.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Derecognition

The Company derecognises a financial asset from its balance sheet when, and only when, (i) the contractual rights to the cash flows from the financial asset expire, or (ii) the Company has transferred all or substantially all of the risks and rewards of ownership of the financial asset and no longer controls the financial asset. The Company derecognises a financial liability from its balance sheet, when and only when, it is extinguished.

(e) Presentation

(i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where gains and losses from a group of similar transactions are reported on a net basis such as foreign exchange gains and losses;
- where amounts are collected on behalf of third parties, where the Company is, in substance, acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Company is reimbursed.

(ii) Offsetting of assets and liabilities

Assets and liabilities are offset and the net amount reported in the balance sheet only where:

- there is a current enforceable legal right to offset the asset and liability; and
- there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(iii) Cash flow statement

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and immediately lent to the Parent Company.

(iv) Segment reporting

Business segments are distinguishable components of the Company that provide products or services that are subject to risks and rewards that are different to those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments.

As the principal activity of the Company is the raising of external funding, which is on-lent to the Parent Company at a margin, and the majority of its revenue is not earned from external customers, the Company does not have any reportable segments.

(f) Accounting Standards not early adopted

NZ IFRS 9 Financial Instruments **(NZ IFRS 9)**

NZ IFRS 9 is effective for the Company from 1 October 2018. NZ IFRS 9 addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks.

Based on the portfolio of in-scope financial assets held as at 30 September 2018, economic conditions prevailing at the time and management's judgements and estimates, the application of NZ IFRS 9 as at 1 October 2018 has resulted in higher aggregate impairment provisions of approximately NZ$3 million, and the impact on total equity is a reduction of approximately NZ$3 million. These estimates remain subject to change until the Company finalises its financial statements for the year ending 30 September 2019.

2. INTEREST EXPENSE

	2018 NZ$m	2017 NZ$m
Commercial paper	51	51
Debt issuances	323	257
Total interest expense	374	308

3. INCOME TAX

	2018 NZ$m	2017 NZ$m
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	7	7
Prima facie income tax at 28%	2	2
Total income tax expense	2	2
Amounts recognised in the statement of comprehensive income		
Current tax	2	2
Total income tax expense recognised in the statement of comprehensive income	2	2

NOTES TO THE FINANCIAL STATEMENTS

4. COMMERCIAL PAPER

	2018 NZ$m	2017 NZ$m
U.S. commercial paper	2,486	3,654
Euro commercial paper	-	65
Total commercial paper	2,486	3,719

Commercial paper issued is guaranteed by the Parent Company.

5. DEBT ISSUANCES

	2018 NZ$m	2017 NZ$m
U.S. medium term notes	10,213	9,004
Euro medium term notes	4,610	3,173
Covered bonds	3,958	5,325
Total debt issued	18,781	17,502

Debt issuances are guaranteed by the Parent Company. Debt issuances, other than covered bonds, are unsecured and rank equally with other unsecured liabilities.

Covered Bonds

Substantially all of the assets of the ANZNZ Covered Bond Trust (the Trust) are made up of certain housing loans and related securities originated by the Parent Company which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Trust of issuances of covered bonds by the Company, or the Parent Company, from time to time. The assets of the Trust are not available to creditors of the Company or the Parent Company, although the Company or the Parent Company (or its liquidator or statutory manager) may have a claim against the residual assets of the Trust (if any) after all prior ranking creditors of the Trust have been satisfied.

6. RELATED PARTY TRANSACTIONS

Transactions with other related parties

The Company undertakes transactions with the Parent Company and other members of the Australia and New Zealand Banking Group Limited group of companies (ANZ Group). These transactions principally consist of funding transactions. Other members of the ANZ Group provide administrative functions, including remuneration of key management personnel, to the Company for which no payments have been made.

All interest income is from the Parent Company. Audit fees and fees for other services have been paid to the auditors by the Parent Company without reimbursement.

	2018 NZ$000	2017 NZ$000
Audit or review of financial statements	38	38
Other services:		
Review of offer documents	104	130
Other assurance services	16	16
Total other services	120	146
Total fees paid to auditors by the Parent Company	158	184

Balances with related parties

Cash at bank comprises short term deposits with the Parent Company.

Amounts due from the Parent Company are lent on similar terms as the underlying funding raised.

7. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following is an analysis of asset and liability line items in the balance sheet that combine amounts expected to be realised or due to be settled within one year and after more than one year.

	2018			2017		
	within one year NZ$m	after more than one year NZ$m	Total NZ$m	within one year NZ$m	after more than one year NZ$m	Total NZ$m
Assets						
Due from Parent Company	5,575	15,739	21,314	6,456	14,807	21,263
Liabilities						
Debt issuances	3,042	15,739	18,781	2,695	14,807	17,502

8. EQUITY

Capital management policies

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide funding for the shareholder and to maintain an optimal capital structure to reduce the cost of capital.

The Company’s capital comprises issued share capital and retained earnings. The Company’s dividend policy is to distribute all retained profits to the Parent Company.

Ordinary share capital

The Company’s share capital consists of 500,000 (2017: 500,000) fully paid ordinary shares that have the rights and powers prescribed by Section 36 of the Companies Act 1993. The shares have a carrying value of $499,900.

The dividend on ordinary shares was $9.79 per share (2017: $8.45 per share).

9. FINANCIAL RISK MANAGEMENT

Financial instruments are entered into by the Company in its operations as a financial intermediary. The Company’s operations are matched funded to minimise interest rate, currency and liquidity risks.

There are no material off balance sheet instruments. All aspects of risk are managed within a framework of policies, limits, control procedures, systems and reporting. Risk exposures are independently monitored and controlled within predefined limits, with an internal reporting framework in place.

Credit risk

Credit risk is the potential that the counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract, thus causing loss.

The Company's principal exposure is to the Parent Company and the carrying amount represents the Company’s maximum and net exposure to credit risk.

Market risk

Interest rate risk

Interest rate risk relates to the potential adverse impact of changes in market interest rates on future net interest income of the Company.

The Company manages its interest rate risk by matching interest rates and tenors on its financial liabilities with the interest rates and tenors on its financial assets with the Parent Company. As a result a 1% rate shock would not have any impact on profit or loss.

Currency risk

Currency risk arises from changes in foreign exchange rates impacting on residual currency positions that may result from the Company's business as a financial intermediary.

Currency risk is monitored in terms of open positions to each currency, based on nominal value and the duration of each exposure. The total amount of foreign currency exposures, whether recognised or unrecognised, within each currency is not material.

NOTES TO THE FINANCIAL STATEMENTS

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations on commercial paper and debt issuances when they fall due.

The Company manages its liquidity rate risk by matching interest rates and tenors on its financial liabilities with the interest rates and tenors on its financial assets with the Parent Company.

The table below provides residual contractual maturity analysis of financial liabilities at 30 September within relevant maturity groupings. All outstanding debt issuance is profiled on the earliest date on which the Company may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reporting on balance sheet.

2018	Total NZ$m	Less than 3 months NZ$m	3-12 months NZ$m	1-5 years NZ$m	Beyond 5 years NZ$m	No specified maturity NZ$m
Liabilities						
Commercial paper	2,506	986	1,520	-	-	-
Debt issuances	20,011	901	2,470	12,982	3,658	-
Payables and other liabilties	1	1	-	-	-	-
Total financial liabilities	22,518	1,888	3,990	12,982	3,658	-
2017						
Liabilities						
Commercial paper	3,744	1,118	2,626	-	-	-
Debt issuance	18,534	1,256	1,720	12,422	3,136	-
Total financial liabilities	22,278	2,374	4,346	12,422	3,136	-

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

No assets or liabilities are carried at fair value. The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments and include the following:

- for accrued interest payable, the carrying amount is equivalent to the fair value.
- for all other financial assets and financial liabilities, estimated fair values are based on market rates.

Below is a comparison of the carrying amounts as reported on the balance sheet and fair value of financial asset and liability categories other than those categories where the carrying amount is considered a reasonable approximation of fair value:

	2018		2017	
	Carrying amount NZ$m	Fair value NZ$m	Carrying amount NZ$m	Fair value NZ$m
Financial assets				
Due from the Parent Company	21,314	21,092	21,263	21,345
Financial liabilities				
Commercial paper	2,486	2,486	3,719	3,721
Debt issuances	18,781	18,559	17,502	17,582

Independent Auditor's Report

To the shareholder of ANZ New Zealand (Int'l) Limited

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of ANZ New Zealand (Int'l) Limited (the Company) on pages 1 to 7:

i. present fairly in all material respects the company's financial position as at 30 September 2018 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the balance sheet as at 30 September 2018;

— the statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the Company in relation to prospectus reviews and assurance services. These matters have not impaired our independence as auditor of the Company. We have no relationship with, or interests in, the Company.

Other information

The Directors, on behalf of the Company, are responsible for the other information included in the Company's Annual Financial Report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Company, are responsible for:

— the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

— to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/

This description forms part of our independent auditor's report.

KPMG

KPMG
Auckland

30 November 2018

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anz.co.nz

Annex B—Form of Final Terms

ANZ New Zealand **(Int'l)** Limited /ANZ Bank New Zealand Limited US$10,000,000,000 Medium-Term Notes, Series A, Offering Memorandum dated February 4, 2020 (the **"Offering Memorandum").**

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS: The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area **("EEA")** or in the United Kingdom (the "UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended **("MiFID II");** or (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the **"PRIIPs Regulation")** for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

[MiFID II product governance / Professional investors and eligible counterparties only target market **–** Solely for the purposes of [the **Agents'/each** relevant **Agent's]** product approval process as [a] MiFID II [(as defined below)] **"manufacturer[s]",** the target market assessment completed by the relevant [Agents/Agent] in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a **"distributor")** should take into consideration the **manufacturer['s/s']** target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the **manufacturer['s/s']** target market assessment) and determining appropriate distribution channels.] The Issuer is not subject to MiFID II and any implementation thereof by a member state of the EU or the UK. It is therefore not a **"manufacturer"** for the purposes of the MiFID Product Governance Rules under EU Delegated Directive 2017/593 and has no responsibility or liability for identifying a target market, or any other product governance obligation set out in MiFID II, for financial instruments it issues (including the foregoing target market assessment for the Notes described in this legend).

[This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation, and must be read in conjunction with the Offering Memorandum [and the supplements[s] dated []], which constitutes a base prospectus for the purposes of the Prospectus Regulation. Full information on ANZ New Zealand **(Int'l)** Limited/ANZ Bank New Zealand Limited and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Memorandum [and the supplement[s] dated []].

The Offering Memorandum [and the supplement[s] dated []] is [are] available for viewing during normal business hours at Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand [and copies may be obtained from Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand].] / [This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation, and must be read in conjunction with the Offering Memorandum [and the supplement[s] dated []], which constitutes a base prospectus for the purposes of the Prospectus Regulation, including the terms and conditions of the Notes as set out in the section entitled **"Description** of the Notes and the **Guarantee"** in the Offering Memorandum dated []. Full information on ANZ New Zealand (Int'l) Limited/ANZ Bank New Zealand Limited and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Memorandum [and the supplement[s] dated []]. The Offering Memorandum [and the supplement[s] dated []]is [are] available for viewing during normal business hours at Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand [and copies may be obtained from Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand].]

[Notification under Section 309B(1) of the Securities and Futures Act of Singapore (the **"SFA"):** The Issuer has determined and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in the Monetary Authority of Singapore (the **"MAS")** Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]

Final Terms—dated [ ]

In terms of the Fiscal Agency Agreement dated as of March 15, 2005, as amended, the Issuer wishes to advise the following in respect of the latest issue of Notes.

Deal Reference MTN:	[ ]
Issuer:	[ANZ New Zealand (Int'l) Limited] (Legal Entity Identifier ("LEI"): HZSN7FQBPO5IEWYIGC72] OR [ANZ Bank New Zealand Limited (Legal Entity Identifier ("LEI"): 213800VD256NU2D97H12)
[Guarantor]	[ANZ Bank New Zealand Limited]
Principal Amount and Specified Currency:	[US$[ ]] OR [ ]
Option to receive payment in Specified Currency:	[Not Applicable] OR [ ]
Type of Note:	[Rule 144A Global Note] OR [Regulation S Global Note] OR [Rule 144A Global Note and Regulation S Global Note]
Date on which the Notes will be consolidated to form a single series:	[The Notes will be consolidated and form a single series with [] on the [Issue Date].] [Not Applicable]
Issue Date:	[ ]
Stated Maturity:	[ ]
Redemption:	[No redemption at the option of the Issuer prior to Stated Maturity (other than for tax reasons)] OR [At option of the Issuer -]
Repayment:	[No repayment at the option of the holders prior to Stated Maturity] OR [At option of holders -]
Fixed Rate Notes:	[Applicable/Not Applicable]
Interest Rate:	[ ]% per annum
Interest Rate Frequency:	[Annually/Semi-annually/Quarterly/Monthly/Weekly/Daily]
Regular Record Date(s):	[The [ ]th calendar day prior to the relevant Interest Payment Date]
Interest Payment Dates:	[ ]
Floating Rate Notes:	[Applicable/Not Applicable]
Floating Rate:	Specified Interest Rate [+/−Spread] [x Spread Multiplier][Inverse Floating Rate][Floating Rate/Fixed Rate]
Initial Interest Rate:	[ ]%
Base Rate:	[Federal Funds Rate] OR [LIBOR] OR [SOFR]
Initial Base Rate:	[ ]%
Spread (if applicable):	[Not Applicable] OR [ ]
Spread Multiplier (if applicable):	[Not Applicable] OR [ ]
Maximum (if applicable):	[Not Applicable] OR [ ]
Minimum (if applicable):	[Not Applicable] OR [ ]
Interest Payment Dates:	[third Wednesday of each month/March/June/September/December] OR [●]
Interest Payment Period:	[ ]
Interest Reset Period:	[ ]
Interest Reset Dates:	[Annually/Semi-annually/Quarterly/Monthly/Weekly/Daily]
Initial Interest Reset Date:	[ ]

Interest Calculation Date:	[Earlier of the tenth calendar day after Interest Determination Date, or if such day is not a business day, the next succeeding business day and the business day preceding the applicable Interest Payment Date or Stated Maturity, as the case may be] OR [Not Applicable—if LIBOR or SOFR] OR [●]
Interest Determination Dates:	[ ]
Index Maturity:	[ ]
LIBOR Notes:	[Applicable/Not Applicable]
Applicable provisions:	[Reuters LIBOR01]
Designated LIBOR Page:	[Reuters LIBOR01]
Index currency:	[ ]
SOFR Notes:	[Applicable/Not Applicable]
	[If not applicable, delete following subparagraphs]
Suspension Determination Period:	[Applicable/Not Applicable] [●] U.S. Government Securities Business Day(s)
Reset Period:	[●] U.S. Government Securities Business Day(s)
Floating Rate/Fixed Rate Security:	[Applicable/Not Applicable]
Fixed Rate Commencement Date:	[Not Applicable] OR [ ]
Fixed Interest Rate:	[Not Applicable] OR [ ]
Fixed Rate/Floating Rate Security:	[Applicable/Not Applicable]
Floating Rate Commencement Date:	[ ]
Inverse Floating Rate Security:	[Applicable/Not Applicable]
Original Issue Discount Notes:	[Applicable/Not Applicable]
Zero Coupon Notes:	[Applicable/Not Applicable]
Redemption:	[Applicable/Not Applicable]
Redemption Commencement Date:	[ ]
Redemption Price(s):	[ ]
Redemption Period(s):	[ ]
Yield:	[ ] %
General Provisions:	
Business Day Convention:	[Following Business Day Convention] OR [Modified Following Business Day] OR [Preceding Business Day Convention]
business day:	[ ]
Day Count Fraction:	[ ]OR [Not Applicable]
Issue Price to Investors (%):	[ ]%
Issue Price to Investors ($):	[US$[ ]] OR [ ]
Agent(s) acting in capacity of:	[Principal] OR [Agent]
Additional Paying Agent:	[ ]
Calculation Agent:	[The Bank of New York Mellon]
Listing:	The Official List of the Financial Conduct Authority
Admission to trading:	[Application has been made for the Notes to be admitted to trading on the London Stock Exchange with effect from [ ].]
Denominations:	[ ]

Covenant Defeasance:	[Applicable/Not Applicable]
CUSIP:	[ ]
ISIN:	[ ]
Common Code:	[ ]
[CFI:	[ ], as updated, as set out on the website of the Association of National Numbering Agencies ("ANNA") or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN.]
[FISN:	[ ], as updated, as set out on the website of the ANNA or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN.]
Ratings:	The Notes to be issued [have been] OR [are expected to be] rated: [S&P Global Ratings Australia Pty Ltd. [ ]] [Moody's Investors Service Pty Limited [ ]] [Fitch Australia Pty Ltd [ ]]
Interests of natural and legal persons involved in the issue:	Save for the fees payable to [●][, [●] and [●]] (the "Agent[s]"), so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.
Relevant Benchmark[s]:	[[LIBOR / SOFR /Federal Funds Rate / Other (specify)] is provided by [administrator legal name]][*repeat as necessary*]. [As at the date hereof, [[administrator legal name][appears]/[does not appear]][*repeat as necessary*] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of Regulation (EU) 2016/1011, as amended]/[As far as the Issuer is aware, as at the date hereof, the [*specify benchmark*] does not fall within the scope of Regulation (EU) 2016/1011, as amended] / [Not Applicable]
Reasons for the offer:	[[ ][See "Use of Proceeds" in Offering Memorandum]]
(i) Estimated net proceeds:	[●]
(ii) Estimated total expenses:	[●]
Yield (Fixed Rate Notes only):	
Indication of Yield:	The yield is [●]% per annum]

[The information relating to [●] has been extracted from [●]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By:

Duly authorized

[By:

Duly authorized]

Annex C—Guarantee

GUARANTEE

1. ANZ National Bank Limited, a New Zealand corporation (the "***Guarantor***"), hereby fully, unconditionally and irrevocably guarantees (the "***Guarantee***") as its own debt to each holder of a security of each series authenticated and delivered by the Fiscal Agent (as defined below) (collectively, the "***Securities***", and, individually, a "***Security***"), of ANZ National (Int'l) Limited (the "***Issuer***"), a New Zealand corporation, acting through its London branch, the due and prompt payment in full (including interest thereon, if any) of all payments of principal of, and interest on, Securities issued pursuant to the Fiscal Agency Agreement, dated as of March 15, 2005 (as the same may be amended from time to time), between the Issuer and The Bank of New York, as fiscal agent (the "***Agent***"), and the Guarantor, all sums which may at any time be or become due and payable under the Securities (each, a "***Payment***" and hereinafter collectively referred to as "***Payments***"), at their stated due dates or when otherwise due, irrespective of the invalidity, irregularity or unenforceability thereof.

2. The Guarantor hereby agrees that its obligations hereunder shall be as if it were a principal debtor and not merely a surety, and shall be full, absolute and unconditional, irrespective of, and shall not be affected by, any invalidity, irregularity or enforceability of any Security, any failure to enforce the provisions of any Security, any waiver, modification or consent granted to the Issuer with respect thereto, by the holder of any Security or any other circumstances which may otherwise constitute a legal or equitable discharge of a surety or guarantor.

3. The Guarantor waives all notices of acceptance of this Guarantee or of the creation, renewal, extension, modification, acceleration, compromise or release of any Security and no such creation, renewal, extension, modification, acceleration, compromise or release of any Security shall impair or diminish the Guarantor's obligations hereunder.

4. The Guarantor waives any requirement that the holder or holders of the Securities, in the event of a default in the making of any Payments by the Issuer, first make demand upon or seek to enforce remedies against the Issuer or first realize upon the collateral, if any, available to such holder or holders before demanding payment under or seeking to enforce this Guarantee.

5. The Guarantor hereby waives, in favor of the holders, any and all of its rights, protections, privileges and defenses provided by applicable law to a guarantor and waives any right of set-off which the Guarantor may have against the holder of a Security in respect to any amounts which are or may become payable by the holder of the Security to the Issuer.

6. The Guarantor waives diligence, notice of acceptance, presentment, demand for payment, filing of claims with a court in the event of merger or bankruptcy of the Issuer, any right to require a proceeding first against the Issuer or any other person, protest, notice of dishonor or non-payment to or on the Guarantor or the Issuer, notice of any other default, breach or nonperformance of any agreement, covenant or obligation of the Issuer under the Security, and all notices and demands whatsoever with respect to the Securities or any indebtedness evidenced thereby.

7. This Guarantee is a continuing guarantee and nothing save payment in full of each Security hereby guaranteed shall discharge the Guarantor of its obligations hereunder in respect of such Security.

8. This Guarantee shall continue to be effective or to be reinstated, as the case may be, if at any time any Payment, in whole or in part, is rescinded or must otherwise be restored by the holder of a Security upon the bankruptcy, liquidation or reorganization of the Issuer or otherwise.

9. The obligations of the Guarantor under this Guarantee shall not be altered, limited or affected by any proceeding, voluntary or involuntary, involving the bankruptcy, insolvency, receivership, reorganization, liquidation or arrangement of the Issuer or by any defense which the Issuer may have by reason of the order, decree or decision of any court or administrative body resulting from any such proceeding. The Guarantor agrees that any interest on Payments which accrues after the commencement of any such proceeding (or which would have accrued had such proceeding not been commenced) shall be included in the Payments.

10. The Guarantor shall be subrogated to all rights of each holder of Securities against the Issuer in respect of any amounts paid to such holder by the Guarantor pursuant to the provisions of this Guarantee; provided, however, that the Guarantor shall not be entitled to enforce, or to receive any payments arising out of or based upon, such right of subrogation until the Payments on all Securities of the same series and like tenor shall have been paid in full.

11. This Guarantee shall be governed by, and interpreted in accordance with, the laws of the State of New York, without reference to principles of conflict of laws that would require the application of laws of a jurisdiction other than the State of New York, except that all matters pertaining to the authorization and execution of this Guarantee shall be governed by the laws of New Zealand.

12. No amendment, release or modification of the provisions of this Guarantee shall be established by conduct, custom or course of dealing, but solely by the Guarantor giving written notice of such amendment, release or modification to the Agent, *provided* that such amendment, release or modification shall not affect the validity or enforceability of this Guarantee, in its current form as of the date hereof, including any continuation or reinstatement of this Guarantee pursuant to the sixth paragraph hereof in respect of any Securities issued, extended, renewed or otherwise outstanding prior to the receipt of such amendment or revocation. No delay or omission by any holder or holders of Securities to exercise any right under this Guarantee shall impair any such right, nor shall it be construed to be a waiver thereof.

13. The Guarantor, for the benefit of the holders of Securities, agrees that in the event any payments made by the Guarantor hereunder to any holder of a Security are subject to any present or future tax, duty, assessment, impost, levy or other similar charge imposed upon such holder in respect of the Guarantor's payment hereunder by the government of New Zealand or the United Kingdom or any political subdivision thereof or taxing authority therein, or the domicile or principal place of business of the payor (the "***Taxing***

Jurisdiction") (any such taxes, duties, assessments, imposts, levies and other similar charges being referred to herein as "***Taxes***"), the Guarantor will pay to such holder additional amounts such that the amount paid to such holder will not be less than the amount which the holder would have received if the Guarantor's payments hereunder were not subject to any Taxes; *provided, however*, that no such additional amounts shall be payable with respect to any Security presented for payment by or an behalf of any holder of a Security who is subject to such Taxes in respect of payments hereunder by reason of:

(a) any Taxes which would not have been so imposed but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary or member of such holder, if such holder is an estate, trust or partnership) and a Taxing Jurisdiction, other than the mere receipt of such payment or the ownership or holding of the Security;

(b) any Taxes which would not have been so imposed but for such holder (or between a fiduciary, settlor, beneficiary or member of such holder, if such holder is an estate, trust or partnership) not complying with any statutory requirements or not having made a declaration of non-residence in, or lack of connection with, a Taxing Jurisdiction or any similar claim for exemption, if the Issuer or its agent has provided such holder of the Security with at least 60 days' prior written notice of an opportunity to comply with such statutory requirements or make a declaration or claim;

(c) any Taxes which would not have been so imposed but for the presentation by the holder of the Security for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;

(d) any Taxes withheld or deducted, where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

(e) any Taxes withheld or deducted where a holder would be able to avoid such withholding or deduction by presenting the Security to another Paying Agent (as defined in the Fiscal Agency Agreement) in a Member State of the European Union;

(f) any Taxes which would not have been so imposed but for such holder (or between a fiduciary, settlor, beneficiary or member of such holder, if such holder is an estate, trust or partnership) having presented the Securities in a Taxing Jurisdiction, unless the Securities could not have been presented for payment elsewhere; or

(g) any combination of the Taxes described above;

nor will additional amounts be paid with respect to any payment of principal of, premium, if any, or interest on the Security to any New Zealand Alien who is a fiduciary or partnership or other than the sole beneficial owner of any such payment to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment would not have been entitled to the additional amounts had such beneficiary, settlor, member or beneficial owner been the registered holder of the Security.

The term "***New Zealand Alien***" means a registered holder who is not resident in New Zealand for the purposes of the New Zealand Income Tax Act 1994 and who does not engage in business in New Zealand through a fixed establishment (as defined in the New Zealand Income Tax Act 1994) in New Zealand.

The Guarantor shall pay all stamp and other duties, if any, which may be imposed by New Zealand or the United Kingdom, the United States or any political subdivision thereof or taxing authority of or in the foregoing with respect to the Fiscal Agency Agreement or the issuance of this Guarantee.

14. The Guarantor agrees that, for so long as any of the Securities remain outstanding and are "***restricted securities***" within the meaning of Rule 144(a)(3) under the Securities Act of 1933, the Guarantor will, for so long as it is neither required to comply with Section 13 or 15(d) of the Securities Exchange Act of 1934, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities, or to any prospective purchasers of such restricted securities designated by a holder, upon the request of such holder, beneficial owner or prospective purchaser, any information required by Rule 144A(d)(4) under the Securities Act of 1933.

15. This Guarantee is unsecured and unsubordinated and ranks *pari passu* with all unsecured and unsubordinated indebtedness of the Guarantor other than indebtedness preferred by law.

16. The Guarantor hereby irrevocably accepts and submits to the non-exclusive jurisdiction of the United States federal courts located in the Borough of Manhattan and the courts of the State of New York located in the Borough of Manhattan in personam, generally and unconditionally, for itself and in respect of its properties, assets and revenues, with respect to any suit, action or proceeding in connection with or arising out of this Guarantee.

17. The Guarantor hereby appoints Australia and New Zealand Banking Group Limited acting through its offices at 1177 Avenue of the Americas in the Borough of Manhattan, The City of New York, New York 10036 and its successors as its authorized agent (the "***Authorized Agent***") upon which process may be served in any action arising out of or based on this Guarantee, the Securities or the Fiscal Agency Agreement which may be instituted in any State or Federal court in the City of New York by the holder of any Security and expressly accepts the non-exclusive jurisdiction of any such court in respect of such action. The Guarantor hereby irrevocably waives any immunity to service of process in respect of any such action to which it might otherwise be entitled in any action arising out of or based on this Guarantee, the Securities or the Fiscal Agency Agreement which may be instituted by the holder of any Security in any State or Federal court in the City of New York or in any competent court in New Zealand. Such appointment shall be irrevocable so long as the

holders of the Securities shall have rights pursuant to the terms of the Securities or this Guarantee, except that, if for any reason, Australia and New Zealand Banking Group Limited ceases to be able to act as Authorized Agent or no longer has an address in the Borough of Manhattan, The City of New York, the Guarantor will appoint another person in the Borough of Manhattan, The City of New York, selected in its discretion, as such Authorized Agent. Prior to the date of issuance of any Securities under the Fiscal Agency Agreement, the Guarantor shall obtain the acceptance of Australia and New Zealand Banking Group Limited, New York branch to its appointment as such Authorized Agent, a copy of which acceptance it shall provide to the Fiscal Agent. The Guarantor shall take any and all action, including the filing of any and all documents and instruments, that may be necessary to continue such appointment or appointments in full force and effect as aforesaid. Service of process upon the Authorized Agent at the address indicated above, as such address may be changed within the Borough of Manhattan, The City of New York by notice given by the Authorized Agent to each party hereto, shall be deemed, in every respect, effective service of process upon the Guarantor. The Guarantor agrees that the failure of such Authorized Agent to give any notice of such service to it shall not impair or affect in any way the validity of such service or any judgment rendered in any action or proceeding based thereon. Notwithstanding the foregoing, any action arising out of or based on this Guarantee, the Securities or the Fiscal Agency Agreement may be instituted by the holder of any Security in any competent court in New Zealand. The Guarantor hereby waives irrevocably any immunity from jurisdiction to which it might otherwise be entitled in any action arising out of or based on this Guarantee, the Securities or the Fiscal Agency Agreement which may be instituted by the holder of any Security in any State or Federal court in The City of New York or in any competent court in New Zealand and hereby further irrevocably waives and agrees not to plead or claim in any such court that any such action, suit or proceeding has been brought in an inconvenient forum.

18. The Guarantee shall not be valid or become obligatory for any purpose with respect to a Security until the certificate of authentication on such Security shall have been signed by or on behalf of the Fiscal Agent.

IN WITNESS WHEREOF, the Guarantor has authorized and caused this Guarantee to be duly executed and delivered as of this 15 day of March, 2005.

ANZ NATIONAL BANK LIMITED by:

Signature of authorised signatory

SIR JOHN ANDERSON

Name of authorised signatory

Signature of authorised signatory

ANTHONY BRADSHAW

Name of authorised signatory

and witnessed by:

Signature of witness

Bank Manager

Occupation

Wellington, New Zealand

City/town of residence

ANZ Bank New Zealand Limited
Ground Floor, ANZ Centre, 23-29 Albert Street
Auckland 1010
New Zealand

ANZ New Zealand **(Int'l)** Limited
Ground Floor, ANZ Centre, 23-29 Albert Street
Auckland 1010
New Zealand

Fiscal Agent and Paying Agent

The Bank of New York Mellon
101 Barclay Street
Floor 7 East
New York, New York 10286
United States

Calculation Agent, Listing Agent and London Paying Agent

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One Canada Square
London E14 5AL
United Kingdom

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To ANZ Bank New Zealand Limited and ANZ New Zealand (Int'l) Limited

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Wellington
New Zealand

Supplemental Fiscal Agent and Issuing and Paying Agent

JPMorgan Chase Bank, National Association
4 New York Plaza, 13th Floor
New York, New York 10004-2413
United States

ANZ Bank New Zealand Limited

ANZ New Zealand **(Int'l)** Limited