**Offering Memorandum** **December 1, 2017**

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

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

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

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

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

The following terms may apply to the Notes:

- mature one year or more from the date of issue;
- may be subject to redemption at the Issuer's option or require repurchase at your option;
- a fixed interest rate, which may be zero if Notes are issued at a discount from the principal amount due at maturity, or a floating interest rate, or both fixed and floating rate;
- floating interest rates may include:
  - CD Rate
  - CMT Rate
  - Commercial Paper Rate
  - EURIBOR
  - Federal Funds Rate
  - LIBOR
  - Prime Rate
  - Treasury Rate
- 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 20 of this Offering Memorandum.**

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

The Notes and the Guarantee are being offered and sold without registration under the United States Securities Act of 1933, as amended (the "**Securities Act**"): (A) to "qualified institutional buyers" ("**QIBs**") as defined in Rule 144A under the Securities Act ("**Rule 144A**") in reliance upon the exemptions provided by Section 4(a)(2) of the Securities Act and Rule 144A and (B) to certain persons in reliance upon Regulation S under the Securities Act ("**Regulation S**"). Prospective purchasers are hereby notified that the seller of the Notes may be relying on an exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on resales and transfers, see "Notice to Purchasers" and "Plan of Distribution".

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

Application will be made to the Financial Conduct Authority in its capacity as competent authority (the "**UK Listing Authority**") under the Financial Services and Markets Act 2000, as amended (the "**FSMA**"), for Notes issued within the period of 12 months from the date of this Offering Memorandum to be admitted to the official list of the UK Listing Authority (the "**Official List**") and an application will be made to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market. In this Offering Memorandum, references to Notes being "**listed**" will mean that such Notes have been admitted to the Official List and have been admitted to trading on the London Stock Exchange's Regulated Market. The London Stock Exchange's Regulated Market is a "regulated market", for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**").

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

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

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area (the "**EEA**") or offered to the public in a Member State of the European Economic Area (each, a "**Member State**") in circumstances which would otherwise require the publication of a prospectus under Article 3 of Directive 2003/71/EC, as amended, including by Directive 2010/73/EU (the "**Prospectus Directive**"), the minimum denomination at the issue date shall be no less than €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

**The credit ratings referred to in this Offering Memorandum in respect of ANZ New Zealand have been issued, and the credit ratings in respect of the Notes (when issued) will be issued, by one or more of Standard & Poor's (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 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 European Union 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 European Union and registered under the CRA Regulation or issued by a credit rating agency established in a third country but whose credit ratings are endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation, unless the rating is provided by a credit rating agency operating in the European Union before 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*

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|---|---|---|
| **ANZ Securities** | **Citigroup** | **Morgan Stanley** |
| **Barclays** | **Deutsche Bank Securities** | **RBC Capital Markets** |
| **BofA Merrill Lynch** | **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 UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR ANY STATE SECURITIES AUTHORITY. NEITHER THE SEC NOR ANY STATE SECURITIES AUTHORITY HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS 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) The person making the decision to acquire a Note on behalf of any such plan (the "**Plan Fiduciary**") from the Issuer, any Agent, or any of their respective affiliates, agents or employees (the "**Transaction Parties**") will be deemed to have represented and warranted that (A) none of the Transaction Parties has provided or will provide advice with respect to the acquisition of a Note by the plan, other than to the Plan Fiduciary which is independent of the Transaction Parties, and the Plan Fiduciary either: (i) is a bank as defined

in Section 202 of the Investment Advisers Act of 1940 (the "**Advisers Act**"), or similar institution that is regulated and supervised and subject to periodic examination by a state or federal agency; (ii) is an insurance carrier which is qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of assets of a plan; (iii) is an investment adviser registered under the Advisers Act, or, if not registered as an investment adviser under the Advisers Act by reason of paragraph (1) of Section 203a of the Advisers Act, is registered as an investment adviser under the laws of the state in which it maintains its principal office and place of business; (iv) is a broker-dealer registered under the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"); or (v) has, and at all times during the plan's holding of a Note will have, total assets of at least US$50,000,000 under its management or control (provided that this clause (v) shall not be satisfied if the Plan Fiduciary is either (a) the owner or a relative of the owner of the individual retirement account that is acquiring a Note, or (b) a participant or beneficiary of the plan acquiring a Note in such capacity); (B) the Plan Fiduciary is capable of evaluating investment risks independently, both in general and with respect to particular transactions and investment strategies, including the acquisition of a Note by the plan; (C) the Plan Fiduciary is a "fiduciary" with respect to the plan within the meaning of Section 3(21) of ERISA, Section 4975 of the Code, or both, and is responsible for exercising independent judgment in evaluating the plan's acquisition of a Note; (D) none of the Transaction Parties has exercised any authority to cause the plan to acquire a Note or to negotiate the terms of such acquisition; (E) none of the Transaction Parties receives a fee or other compensation from the plan or the Plan Fiduciary for the provision of investment advice in connection with the decision to acquire a Note; and (F) the Plan Fiduciary has been informed by the Transaction Parties: (i) (a) that none of the Transaction Parties is undertaking to provide impartial investment advice or to give advice in a fiduciary capacity, and (b) that no such entity has given investment advice or otherwise made a recommendation, in connection with the plan's acquisition of a Note (other than advice, if any, given by a Transaction Party to an independent Plan Fiduciary that meets the requirements of clause (A) above); and (ii) of the existence and nature of the Transaction Parties' financial interests in the plan's acquisition of a Note.

(8) **PROHIBITION OF SALES TO EEA RETAIL INVESTORS** - The Notes are not intended, from January 1, 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (A) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (B) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (C) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No. 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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

This Offering Memorandum comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and relevant implementing measures in the United Kingdom. This Offering Memorandum supersedes and replaces in its entirety the Offering Memorandum dated June 9, 2017, for the ANZ New Zealand and ANZNIL medium-term note program.

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

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

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

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

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

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

## Available Information

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

The Disclosure Statements of the ANZ New Zealand Group for the year ended September 30, 2017 (the "**2017 Disclosure Statement**") and the year ended September 30, 2016 (the "**2016 Disclosure Statement**" and together with the 2017 Disclosure Statement, the "**Disclosure Statements**"), which contain the audited consolidated financial statements of the ANZ New Zealand Group as at and for the years ended September 30, 2017 (the "**2017 ANZ New Zealand Financial Statements**"), 2016 (the "**2016 ANZ New Zealand Financial Statements**") and 2015 (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, in each case to the extent there are any inconsistencies.

For segment reporting purposes in the Disclosure Statements, the ANZ New Zealand Group is split into three business segments: Retail, Commercial and Institutional. Segmental reporting has been revised to reflect changes to the ANZ New Zealand Group's structure. During the year ended September 30, 2016, segmental reporting was revised to reflect the integration of the Wealth segment into the Retail segment (the Wealth segment was previously reported separately). Financial information as at and for the year ended September 30, 2016 reflects the current segment definitions. Comparative financial information as at and for the year ended September 30, 2015 has been adjusted to be consistent with the 2016 year's segment definitions and the requirements of International Financial Reporting Standards ("**IFRS"**).

The audited financial statements of ANZNIL as at and for the years ended September 30, 2017 and 2016 (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 Exchange Act, or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any QIB who holds any Note and any prospective purchaser of a Note who is a QIB designated by the holder of such Note, upon the request of such holder or prospective purchaser, the information concerning ANZ New Zealand required to be provided to such holder or prospective purchaser by Rule 144A(d)(4) under the Securities Act.

If at any time the Issuers shall be required to prepare a supplementary prospectus pursuant to Section 87G of the FSMA, the Issuers will prepare and make available a supplement to this Offering Memorandum or a further Offering Memorandum which, in the case of a supplement in respect of any subsequent issue of Notes to be admitted to the Official List of the UK Listing Authority, will constitute a supplementary prospectus as required by the UK Listing Authority and Section 87G of the FSMA.

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

## Certain Defined Terms

In this Offering Memorandum, unless the context otherwise requires:

- references to "**we**", "**our**", "**us**" or "**ANZ New Zealand Group**" are to ANZ New Zealand together with its consolidated subsidiaries (including, among others, ANZNIL);
- references to "**ADI**" are to an authorized deposit-taking institution;
- references to "**ANZ New Zealand**", the "**Bank**" or the "**Guarantor**" are to ANZ Bank New Zealand Limited or, prior to October 29, 2012, but after June 28, 2004, ANZ National Bank Limited, and prior to June 28, 2004, ANZ Banking Group (New Zealand) Limited;
- references to "**ANZNIL**" are to ANZ New Zealand (Int'l) Limited, formerly ANZ National (Int'l) Limited and NBNZ International Limited;
- references to "**ANZBGL**" are to our ultimate parent, Australia and New Zealand Banking Group Limited;
- references to "**ANZ Group**" and "**Group**" are to ANZBGL together with its consolidated subsidiaries (including, among others, ANZ New Zealand and ANZNIL);
- references to "**ANZ**" are to the ANZ New Zealand Group's ANZ brand;
- reference to "**ANZ Share Investing**" are to Share Investing Limited, a wholly-owned subsidiary of **ANZBGL**, formerly known as ETrade Australia Limited:
- references to "**APRA**" are to the Australian Prudential Regulation Authority;
- references to "**CommAgri**" or "**CommAgri business**" are to ANZ New Zealand Group's commercial and agricultural business in the Commercial segment.
- references to "**Final Terms**" are to a supplement hereto, which shall be substantially in the form attached hereto as Annex B, describing the terms of a Tranche; references to "**your Final Terms**" are to the Final Terms describing the specific terms of the Note(s) you purchase;
- references to the "**Fiscal Agency Agreement**" are to the fiscal agency agreement, dated as at March 15, 2005, as amended, among ANZ New Zealand, ANZNIL and The Bank of New York Mellon, as Fiscal Agent;
- references to "**legislation**" include any amendments, re-enactments or replacement of legislation;
- references to "**LVR**" are to loan-to-value ratio;
- references to the "**New Zealand branch of ANZBGL**" and the "**New Zealand branch**" are to the New Zealand branch established by ANZBGL that was registered on January 5, 2009;
- references to "**Noteholder**" are to a holder of Notes;
- references to "**Obligor**" are to any of the Issuers or the Guarantor;
- references to "**OECD**" are to the Organisation for Economic Co-operation and Development;
- references to this "**Offering Memorandum**" are to this offering memorandum, the annexes hereto and any supplement hereto;
- references to "**one-year core funding ratio**" are to all funding with residual maturity longer than one year plus 50% of tradable debt securities with original maturity of two years or more and with 6-12 months residual maturity plus non-market funding with residual maturity less than one year, discounted according to size bands, plus Tier 1 capital divided by total loans and advances;
- references to "**RBNZ**" are to the Reserve Bank of New Zealand;
- references to "**Reserve Bank Act**" are to the Reserve Bank of New Zealand Act 1989;
- references to "**Retail**" are to ANZ New Zealand's retail banking business, including its branch network;

- references to "**RMBS**" are to residential mortgage backed securities;
- references to "**2017**" are to our fiscal year ended September 30, 2017, and references to 2016 and other years have a comparable meaning, in each case, unless the context requires otherwise;
- references to "**Wealth**" or "**Wealth business**" are to the ANZ New Zealand Group's insurance and funds management businesses. Wealth also included ANZ New Zealand's private banking business until February 1, 2017, when private banking was transferred to Retail;
- 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$**" or "**Australian dollars**" are to the lawful currency of Australia;
- references to "**€**", "**EUR**", or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Union as amended from time to time; and
- references to "**US$**", "**USD**" 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 United States Private Securities Litigation Reform Act of 1995. The ANZ New Zealand Group does not undertake any obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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

- adverse conditions in global or regional debt and equity markets;
- business and economic conditions in New Zealand and the external markets with which New Zealand trades or other jurisdictions in which we or our customers operate, in particular, Australia, Asia, Europe and the United States, including, without limitation, changes that impact the real estate industries;
- the impact on us and our customers of potential changes announced by the new coalition government of New Zealand following New Zealand's elections in September 2017;
- adverse conditions in the residential housing market in New Zealand;
- operational and environmental factors, including natural disasters such as earthquakes, floods, cyclones, volcanic eruptions, bush fires and tsunamis;
- continuing impacts of the global financial crisis, including volatile conditions in funding, equity, currency and asset markets;
- market liquidity and investor confidence;
- changes to our credit ratings;
- inflation, interest rates, exchange rates, markets and monetary fluctuations and longer term changes;
- the impact of current, pending and future legislation, regulation (including capital, leverage,liquidity and prudential requirements), regulatory disclosures and taxation laws and accounting standards in New Zealand, Australia and elsewhere;
- the impact on us of legal, regulatory and other current or future proceedings arising out of our alleged or actual failure to comply with applicable laws, regulations or other requirements;
- changes to our relationship with ANZBGL, including those changes required by law, regulation or administrative decree, including those described under "Regulation and Supervision";
- levels of credit risk and the adequacy of provisions to cover credit impairment;
- changes in consumer spending, saving and borrowing habits in New Zealand and external markets in which we, our customers or counterparties operate, in particular, Australia, Asia, Europe and the United States;
- commercial and residential mortgage lending and real estate market conditions in New Zealand;
- the effects of competition in the geographic and business environments in which we, our customers or our counterparties operate;
- the competitive environment and impacts of changing consumer preferences for accessing and using the services provided by us;
- our ability to maintain or increase market share and control expenses;
- our ability to complete, process and integrate or separate acquisitions and dispositions;

- our timely development of new products and services and the acceptance and perceived overall value of these products and services by users;
- an adverse change to our reputation;
- the reliability and security of our technology and our ability to protect our information from security risks, including potential cyber-attacks;
- risks associated with the information systems we maintain;
- demographic changes and changes in political, social, and economic conditions in New Zealand and any of the jurisdictions in which we, our customers or our counterparties operate;
- the impact of currency and commodity price fluctuations on New Zealand's agricultural exports and tourism sectors;
- the stability of New Zealand, Australian, regional and global financial systems and disruptions to financial markets, the financial and credit uncertainty in Europe, China and the United States and any losses we or our customers may experience as a result;
- the effectiveness of our risk management policies, including with respect to our internal processes, systems, organizational management and employees;
- changes to the value of intangible assets;
- other risks and uncertainties detailed under "Regulation and Supervision", "Overview—ANZ Bank New Zealand Limited—ANZ New Zealand Organizational Structure—Competition", "Risk Factors" and elsewhere herein; and
- various other factors beyond our control.

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

## Enforcement of Liabilities; Service of Process

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

## Presentation of Financial Information

The ANZ New Zealand Financial Statements and the ANZNIL Financial Statements have been prepared in accordance with accounting practice generally accepted in New Zealand ("**NZ GAAP**") and do not contain a reconciliation to generally accepted accounting principles in the United States ("**U.S. GAAP**"). The ANZ New Zealand Financial Statements and the ANZNIL Financial Statements comply with the New Zealand equivalents to International Financial Reporting Standards ("**NZ IFRS**"), 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 the 2017, 2016, and 2015 years are subject to auditing and auditor independence standards applicable in New Zealand, which differ from those applicable in the United States.

For the convenience of the reader, this Offering Memorandum contains translations of certain NZ dollar amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the NZ dollar amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. See "Exchange Rates".

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

## Overview

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

## ANZ New Zealand

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

ANZ New Zealand is an indirect wholly-owned subsidiary of ANZBGL. ANZ New Zealand is a registered bank under the Reserve Bank of New Zealand Act 1989 (the "**Reserve Bank Act**").

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

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

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

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

ANZ New Zealand is the largest full-service banking group in New Zealand by total assets, according to the Financial Institutions Performance Survey June 2017 Quarterly Results report, released by KPMG. As at September 30, 2017, ANZ New Zealand Group had total assets of $153,973 million and held the largest market share measured by total assets as at June 30, 2017, compared to other registered banks in New Zealand.[1]

As at September 30, 2017, ANZ New Zealand held approximately 30% and the New Zealand branch of ANZBGL held approximately 1% of the total assets held by registered banks in New Zealand, based on the RBNZ data series "*S10 Banks: Balance Sheet for registered banks*". ANZ New Zealand is supported by 193 branches with a customer base of over 2 million.

### Competitive strengths

We believe our competitive strengths are as follows:

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

### Our Strategy

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

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(1) *Source: ASB Bank disclosure statement for the fiscal year ended June 30, 2017; Bank of New Zealand disclosure statement for the 9 months ended June 30, 2017; Westpac New Zealand Limited disclosure statement for the 9 months June 30, 2017.*

- attract, develop and retain world class service and sales teams;
- modernize service through improved digital and data capabilities;
- simplify products and processes; and
- improve our connections between frontline channels to support customer interactions.

## Recent Developments

### *Changes to ANZ New Zealand's Board of Directors*

On October 18, 2017, ANZ New Zealand announced that John Judge, Chair of ANZ New Zealand, will retire from the Board of Directors in January 2018. On October 18, 2017, former New Zealand Prime Minister, the Rt Hon Sir John Key, was appointed to the Board of ANZ New Zealand and will become the Board's new Chair in January 2018.

### *The ANZ Group's Strategic Review of its Wealth Businesses*

The strategic review of the Wealth Australia business that was conducted in 2016 concluded that while the distribution of high quality wealth products and services should remain a core component of the ANZ Group's overall customer proposition, the ANZ Group does not need to be a manufacturer of life and investments products.

On October 17, 2017, the ANZ Group announced it had agreed to sell its OnePath pensions and investments ("**OnePath P&I**") and aligned dealer groups businesses to IOOF Holdings Limited ("**IOOF**"). See "Australia and New Zealand Banking Group Limited—Principal activities of the ANZ Group—Wealth Australia" for further detail. Such sale does not materially impact the ANZ New Zealand Group's financial condition or business strategy.

ANZ New Zealand's funds management business, including KiwiSaver, will be retained as it is considered core to ANZ New Zealand's business. Insurance is also an important product for ANZ New Zealand's customers. A decision has not been made on whether ANZ New Zealand will continue to manufacture life insurance.

### *New coalition government*

Following elections in September 2017, a coalition government was formed between the New Zealand Labour Party and the New Zealand First Party. On October 24, 2017, the New Zealand Labour Party and the New Zealand First Party released a Coalition Agreement outlining policy priorities for the next parliamentary term. The Coalition Agreement is high-level only and it is not possible at this stage to identify the materiality of any policy changes.

## ANZ New Zealand organizational structure

### *Business lines and executive team*

Our business is organized into the following three major business segments: (1) Retail (including the personal and Business Banking businesses and Wealth), (2) Commercial (including the CommAgri business and UDC Finance Limited ("**UDC**")) and (3) Institutional. These segments are supported by centralized back office and corporate functions. Life insurance and fund management products are developed and procured through ANZ New Zealand's wholly-owned subsidiaries OnePath Life (NZ) Limited, 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 products and services to personal, private banking and Business Banking customers via our branch network, mortgage specialists, relationship managers, the contact center and a variety of self-service channels (internet banking, phone banking, ATMs, website and mobile phone banking). Retail and private banking customers have personal banking requirements and Business Banking customers consist primarily of small enterprises with annual revenues of less than NZ$5 million. Core products include current and savings accounts, unsecured lending (credit cards, personal loans and overdrafts) and home loans secured by mortgages over property, investment products, superannuation and insurance services.

As at September 30, 2017, Retail had a network of 193 branches (a decrease of 21, compared to September 30, 2016, due to the restructuring of the branch network), 647 ATMs and 8 mobile ATMs. Customers have access to phone and mobile phone banking and on-line banking services.

As at September 30, 2017, Retail had total loans of $71.9 billion and total deposits of $67.8 billion.

As at September 30, 2017, funds managed by the ANZ New Zealand Group totaled $28.5 billion. As at September 30, 2017, the OnePath Life (NZ) Limited insurance business comprised assets totalling $921 million, which was 0.6% of the total consolidated assets of the ANZ New Zealand Group.

### *Commercial*

Commercial provides services to CommAgri and UDC customers. CommAgri customers consist primarily of privately-owned medium to large enterprises but include firms with annual turnover of up to NZ$250 million. Commercial's relationship with these businesses ranges from simple banking requirements with revenue from deposit and transactional facilities, and cash flow lending, to more complex funding arrangements with revenue sourced from a wider range of products. UDC is principally involved in the financing and leasing of plant, vehicles and equipment, mainly for small and medium sized businesses, as well as investment products.

On January 11, 2017, ANZ New Zealand entered into a conditional agreement to sell UDC to HNA Group. The sale is subject to certain conditions (including regulatory approvals) and ANZ New Zealand is working with HNA Group towards completion of the sale. As at September 30, 2017, the assets and liabilities of UDC are classified as held for sale and presented separately on ANZ New Zealand's balance sheet, see "Selected Consolidated Financial Information". The sale followed a strategic review and was in line with the ANZ Group's strategy to simplify its business and focus on its core banking activities.

As at September 30, 2017, Commercial had total loans of $41.0 billion and total deposits of $14.1 billion of which UDC accounted for $2.9 billion and $1.0 billion, respectively.

### *Institutional*

Institutional provides financial services through a number of specialized units to large multi-banked corporations, often global, which require sophisticated product and risk management solutions. Those financial services include loan structuring, foreign exchange and interest rate products, wholesale money market services and transaction banking.

As at September 30, 2017, Institutional had total loans of $7.6 billion and total deposits of $15.0 billion.

### *Other*

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

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

### Executive Team

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

### *Branding Strategy*

ANZ New Zealand continues to simplify its brand portfolio.

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

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

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

### *Competition*

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

Competition also exists in specific business segments from other banks. The New Zealand Government-owned Kiwibank Limited is active in retail segments and Rabobank New Zealand Limited is active in retail deposits and agricultural lending markets. International banks such as Citigroup, HSBC and Deutsche Bank participate in a limited manner in the institutional market. Since late 2013, Industrial and Commercial Bank of China, China Construction Bank and Bank of China have obtained banking licenses to establish New Zealand subsidiaries. Their focus appears to be in wholesale banking, in particular, trade banking to and from China.

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

Effective from October 1, 2016, the RBNZ changed the existing LVR restriction framework for New Zealand banks. New Zealand banks must restrict new residential mortgage lending over 80% LVR to no more than 10% of the dollar value of a bank's new residential mortgage lending. New Zealand banks must also restrict residential investment mortgage lending over 60% LVR to no more than 5% of the dollar value of a bank's new residential investment mortgage lending. The RBNZ has also set a specific asset class for loans to residential property investors. New Zealand banks must hold more capital for loans to residential property investors. On November 29, 2017, the RBNZ announced adjustments to LVR restrictions. From January 1, 2018, the restrictions will require that no more than 15% (currently 10%) of a bank's new mortgage lending to owner occupiers can be at LVRs of more than 80%, and no more than 5% of a bank's new mortgage lending to residential property investors can be at LVRs of more than 65% (currently 60%).

Outside the banking sector, a number of smaller finance companies in New Zealand are active in the personal and commercial property markets through competitive lending and deposit product offerings. The non-banking sector constituted approximately 3% of total financial system assets as of September 30, 2017.

## 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, 2017, ANZNIL did not account for 10% or more of any of ANZ New Zealand's investments, operating surplus or assets for the most recent fiscal period, but it is considered by management to be of importance to ANZ New Zealand. In addition, as at September 30, 2017, ANZNIL accounts for more than 10% of ANZ New Zealand's consolidated total liabilities.

## Employees

As at September 30, 2017, we employed 7,565 core full-time equivalent employees, consisting of 6,746 people employed on a full-time basis, 721 full-time equivalent employees employed on a part-time basis, and 98 people on fixed-term contracts. In addition, we had a further 71 full-time equivalent employees employed on a casual basis and 126 independent contractors and temporary staff.

| | | | | | **As of September 30,** |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| Number of core full-time equivalent employees[1] | **7,565** | 7,655 | 7,724 | 7,900 | 7,949 |

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

Our core full-time equivalent employees have decreased from 7,655 as at September 30, 2016 to 7,565 as at September 30, 2017.

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, 2016, and will expire on July 31, 2018. Management is not involved in any significant disputes with labor unions.

### Properties

We operate from a substantial number of properties, both freehold and leasehold, throughout New Zealand. As of the date of this Offering Memorandum, our freehold portfolio consisted of 31 properties including head office buildings, retail branches, land and two data centers. Our most valuable freehold properties are Lady Ruby Drive Data Centre (Auckland), Aintree Ave Data Centre (Auckland) and 170 Featherston Street (Wellington).

As of the date of this Offering Memorandum, we lease approximately 608 properties including branches, offices, carparks and standalone ATM sites. We believe that all of our property, both freehold and leasehold, is well maintained and adequately insured.

## ANZ New Zealand (Int'l) Limited

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

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

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

## Overview of Terms

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

**Maturities**.................................................... Such maturities as may be agreed between the relevant Issuer and the relevant purchaser or Agent (as indicated in the relevant Final Terms as the Stated Maturity), subject to such minimum or maximum term as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant Specified Currency (as defined herein).

At the date of this Offering Memorandum, the minimum term of all Notes is one year. There is no maximum stated term.

**Currency** .................................................... Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed between the relevant Issuer and the relevant purchaser or Agent (as indicated in the relevant Final Terms). See "Description of the Notes and the Guarantee—Currency of Notes".

**Denomination and Form** ............................. The Notes will be issued in fully registered form in minimum denominations of US$200,000 (or, in the case of Notes not denominated in U.S. dollars, the equivalent thereof in such Specified Currency, rounded down to the nearest 1,000 units of such foreign currency) and integral multiples of US$1,000 (or, in the case of Notes not denominated in U.S. dollars, 1,000 units of such Specified Currency) in excess thereof.

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive, the minimum denomination at the issue date shall be no less than €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

Notes sold to QIBs in reliance on Rule 144A will be represented by one or more global Notes (each, a "**Rule 144A Global Note**") registered in the name of a nominee of DTC. Notes sold to non-U.S. persons in offshore transactions in reliance on Regulation S will be represented by one or more global Notes (each, a "**Regulation S Global Note**" and, together with the Rule 144A Global Notes, the "**Global Notes**") registered in the name of a nominee of DTC. Definitive Notes will only be issued in limited circumstances. See "Legal Ownership and Book-Entry Issuance—Special considerations for Global Notes".

**Interest Rates** ............................................ Interest bearing Notes may be issued either as Fixed Rate Notes or Floating Rate Notes (each, as defined herein). Fixed Rate Notes will bear interest at the rate specified in the relevant Final Terms. Floating Rate Notes will bear interest based on an interest rate formula designated in the relevant Final Terms, which formula shall be one of: the CD Rate, the CMT Rate, the Commercial Paper Rate, EURIBOR, the Federal Funds Rate, LIBOR, the Prime Rate and the Treasury Rate. 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 semiannually on the date or dates set forth in the relevant Final Terms, and at maturity, and interest on Floating Rate Notes will be payable quarterly on the dates set forth in the relevant Final Terms and at maturity.

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

**Governing Law** ............................................ State of New York, except as to authorization and execution by ANZ New Zealand and ANZNIL of the Notes, the Guarantee and the Fiscal Agency Agreement, which are governed by the laws of New Zealand.

**Risk Factors** ............................................... Prospective purchasers of the Notes should consider carefully all of the information set forth in this Offering Memorandum and, in particular, the information set forth under the caption "Risk Factors" in this Offering Memorandum before making an investment in the Notes.

## Selected Consolidated Financial Information

The consolidated income statement data of the ANZ New Zealand Group for the fiscal years ended September 30, 2017, 2016, 2015, 2014 and 2013 and the consolidated balance sheet information of the ANZ New Zealand Group as at September 30, 2017, 2016, 2015, 2014 and 2013 have been derived from the ANZ New Zealand Group's audited consolidated financial statements for the years ended September 30, 2017, 2016, 2015, 2014 and 2013 (except as designated in the footnotes to the following tables). The financial information contained in this Offering Memorandum should be read in conjunction with, and is qualified by reference to, the ANZ New Zealand Financial Statements. For additional information concerning our financial results, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Offering Memorandum.

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

### Summary consolidated income statement

| | | | | | Year ended September 30, | |
|---|---|---|---|---|---|---|
| NZ$ millions (unless otherwise stated) | **2017 US$ millions**[1] | **2017** | 2016 | 2015 | 2014 | 2013[2] |
| Interest income | **4,478** | **6,198** | 6,423 | 6,926 | 6,272 | 5,957 |
| Interest expense | **2,284** | **3,161** | 3,421 | 4,051 | 3,529 | 3,344 |
| Net interest income | **2,194** | **3,037** | 3,002 | 2,875 | 2,743 | 2,613 |
| Other operating income | **678** | **938** | 852 | 1,175 | 1,085 | 823 |
| Net operating income | **2,872** | **3,975** | 3,854 | 4,050 | 3,828 | 3,436 |
| Operating expenses | **1,061** | **1,468** | 1,599 | 1,512 | 1,489 | 1,512 |
| Profit before credit impairment and income tax | **1,811** | **2,507** | 2,255 | 2,538 | 2,339 | 1,924 |
| Credit impairment charge | **45** | **62** | 150 | 74 | (16) | 63 |
| Profit before income tax | **1,767** | **2,445** | 2,105 | 2,464 | 2,355 | 1,861 |
| Income tax expense | **491** | **680** | 570 | 681 | 639 | 490 |
| **Profit after income tax** | **1,275** | **1,765** | 1,535 | 1,783 | 1,716 | 1,371 |

(1) For the convenience of the reader, the financial data for the year ended September 30, 2017 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate (as defined on page 41) for September 29, 2017 of NZ$1.00=US$0.7225.

(2) Comparative amounts for the year ended September 30, 2013 have been restated as a result of the retrospective application, in accordance with transitional provisions, of NZ International Accounting Standard ("**IAS**") 19 Employee Benefits (amended 2011). The impact of the restatement was not material.

## Summary consolidated balance sheet

| NZ$ millions (unless otherwise stated) | 2017 US$ millions[1] | 2017[2] | 2016[2] | 2015[2] | 2014[2] | As at September 30, 2013[2] Restated | 2013[2] |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Liquid assets | **n/a** | **n/a** | n/a | n/a | n/a | n/a | 2,496 |
| Due from other financial institutions | **n/a** | **n/a** | n/a | n/a | n/a | n/a | 1,570 |
| Cash | **1,689** | **2,338** | 2,274 | 2,380 | 1,822 | 2,206 | n/a |
| Settlement balances receivable | **387** | **536** | 396 | 309 | 855 | 514 | n/a |
| Collateral paid | **1,022** | **1,415** | 2,310 | 1,929 | 783 | 1,002 | n/a |
| Trading securities | **5,537** | **7,663** | 11,979 | 12,139 | 11,750 | 10,320 | 10,320 |
| Investments backing insurance contract liabilities | **89** | **123** | 119 | 151 | 190 | 172 | 172 |
| Derivative financial instruments | **7,137** | **9,878** | 21,110 | 17,658 | 11,404 | 9,518 | 9,518 |
| Available-for-sale assets | **4,595** | **6,360** | 2,859 | 1,428 | 772 | 942 | 782 |
| Net loans and advances | **84,986** | **117,627** | 114,623 | 106,357 | 96,299 | 90,837 | 90,489 |
| UDC assets held for sale[3] | **2,214** | **3,065** | - | - | - | - | - |
| Other assets | **493** | **683** | 701 | 740 | 648 | 567 | 731 |
| Life insurance contract assets | **460** | **636** | 630 | 552 | 470 | 399 | 399 |
| Investment in associates | **5** | **7** | 7 | 4 | 88 | 98 | 98 |
| Deferred tax assets | **-** | **-** | - | - | - | 45 | 39 |
| Premises and equipment | **265** | **367** | 387 | 388 | 380 | 376 | 376 |
| Goodwill and other intangibles | **2,366** | **3,275** | 3,424 | 3,492 | 3,454 | 3,448 | 3,448 |
| **Total assets** | **111,245** | **153,973** | 160,819 | 147,527 | 128,915 | 120,444 | 120,438 |
| **Liabilities** | | | | | | | |
| Due to other financial institutions | **n/a** | **n/a** | n/a | n/a | n/a | n/a | 1,517 |
| Settlement balances payable | **1,329** | **1,840** | 1,771 | 1,844 | 2,296 | 1,428 | n/a |
| Collateral received | **443** | **613** | 529 | 1,687 | 800 | 438 | n/a |
| Deposits and other borrowings | **73,447** | **101,657** | 99,066 | 90,678 | 84,019 | 78,816 | 77,697 |
| Due to Immediate Parent Company | **n/a** | **n/a** | n/a | n/a | n/a | n/a | 939 |
| Derivative financial instruments | **7,099** | **9,826** | 21,956 | 17,230 | 10,205 | 10,243 | 10,243 |
| Current tax liabilities | **28** | **39** | 21 | 87 | 67 | 3 | 3 |
| Deferred tax liabilities | **135** | **187** | 145 | 124 | 60 | - | - |
| UDC liabilities held for sale[3] | **786** | **1,088** | - | - | - | - | - |
| Payables and other liabilities | **832** | **1,151** | 1,119 | 1,487 | 1,297 | 1,195 | 1,705 |
| Employee entitlements and other provisions | **134** | **185** | 206 | 191 | 204 | 229 | 229 |
| Unsubordinated debt | **15,406** | **21,323** | 20,014 | 19,403 | 17,042 | 15,494 | 15,494 |
| Subordinated debt | **2,372** | **3,283** | 3,282 | 2,343 | 1,144 | 1,144 | 1,144 |
| **Total liabilities** | **102,011** | **141,192** | 148,109 | 135,074 | 117,134 | 108,990 | 108,971 |
| **Net assets** | **9,234** | **12,781** | 12,710 | 12,453 | 11,781 | 11,454 | 11,467 |
| **Equity** | | | | | | | |
| Share capital | **6,422** | **8,888** | 8,888 | 8,888 | 8,213 | 7,243 | 7,243 |
| Reserves | **35** | **48** | 62 | (10) | (7) | 24 | 24 |
| Retained earnings | **2,778** | **3,845** | 3,760 | 3,575 | 3,575 | 4,187 | 4,200 |
| **Total equity** | **9,234** | **12,781** | 12,710 | 12,453 | 11,781 | 11,454 | 11,467 |

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

(2) From September 30, 2014 the classification of the balance sheet has been changed to reflect the nature of the financial assets and liabilities reported. Prior to the reclassification, the balance sheet was classified according to counterparty. This has resulted in changes to previously reported balance sheet classifications as at September 30, 2013. Minor changes in the overall total assets and total liabilities to the balance sheet as at September 30, 2013 have also occurred due to the adoption of NZ IAS 19 Employee Benefits.

(3) On January 11, 2017, ANZ New Zealand entered into a conditional agreement to sell UDC to HNA Group. The sale is subject to certain conditions (including regulatory approvals) and ANZ New Zealand is working with HNA Group towards completion of the sale. As at September 30, 2017, the assets and liabilities of UDC are classified as held for sale and presented separately on ANZ New Zealand's balance sheet. The sale followed a strategic review and was in line with the ANZ Group's strategy to simplify its business and focus on its core banking activities.

## Other financial data[1]

| | 2017 US$[13] | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| | | | Year ended September 30, | | | |
| **Share information (NZ$ per fully paid share)**[2] | | | | | | |
| Dividend - declared rate | **0.36** | **0.50** | 0.40 | 0.65 | 1.20 | 0.63 |
| Earnings - basic | **0.38** | **0.53** | 0.46 | 0.62 | 0.87 | 0.81 |
| Net tangible assets - basic | **2.02** | **2.80** | 2.78 | 2.68 | 3.12 | 4.71 |
| **Number of shares on issue (thousands)**[2] | | | | | | |
| Ordinary shares - fully paid | **3,345,105** | **3,345,105** | 3,345,105 | 3,345,105 | 2,670,105 | 1,700,105 |
| Preference shares[3] | **300,000** | **300,000** | 300,000 | 300,000 | 300,000 | 300,000 |
| **Ratios**[4] | | | | | | |
| Return on average shareholders equity (%)[5] | **13.58** | **13.58** | 12.10 | 14.85 | 14.45 | 12.19 |
| Return on average total assets (%)[6] | **1.12** | **1.12** | 0.98 | 1.29 | 1.38 | 1.13 |
| Ratio of earnings to fixed charges[7] | **76.70** | **76.70** | 61.06 | 60.43 | 66.24 | 55.19 |
| Total capital ratio (%) | **14.4** | **14.4** | 13.7 | 13.6 | 12.3 | 12.4 |
| **Other banking data:** | | | | | | |
| Capital adequacy ratios [8] | | | | | | |
| Tier 1 (%) | **14.1** | **14.1** | 13.2 | 12.7 | 11.1 | 10.8 |
| Tier 2 (%) | **0.3** | **0.3** | 0.5 | 0.9 | 1.2 | 1.6 |
| Total (%) | **14.4** | **14.4** | 13.7 | 13.6 | 12.3 | 12.4 |
| Net interest margin (%)[9] | **2.21** | **2.21** | 2.28 | 2.40 | 2.48 | 2.46 |
| Cost to income ratio (%)[10] | **36.93** | **36.93** | 41.49 | 37.33 | 38.90 | 44.00 |
| Risk-weighted exposures (NZ$ millions)[8] | **58,986** | **81,642** | 87,119 | 80,662 | 73,427 | 72,193 |
| Return on average risk-weighted exposures ratio (%)[11] | **2.07** | **2.07** | 1.83 | 2.31 | 2.38 | 1.95 |
| **Other information** | | | | | | |
| Points of representation (branches) | **193** | **193** | 214 | 225 | 233 | 261 |
| Number of core full-time equivalent employees[12] | **7,565** | **7,565** | 7,655 | 7,724 | 7,900 | 7,949 |

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

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

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

(4) Where applicable, ratios calculated using average balances have been referenced to the table "Average balance sheet and interest income/expense" on page 75 of this Offering Memorandum. Unless otherwise stated, the methodology for calculating average balances is included in that table.

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

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

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

(8) The RBNZ sets minimum capital requirements that ANZ New Zealand must comply with. From January 1, 2013, ANZ New Zealand has been required to comply with the RBNZ's Basel III requirements. The capital adequacy ratios and risk weighted exposures in the above table have been calculated under the Basel III framework, utilizing the internal ratings based approach.

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

(10) Operating expenses divided by operating income.

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

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

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

# Risk Factors

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

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

If any of the listed or unlisted risks actually occurs, our business, operations, financial condition or reputation could be materially adversely affected, with the result that the trading price of the Notes could decline and you could lose all or part of your investment.

As at the date of this Offering Memorandum, we believe that the following risk factors may affect our ability to fulfill our obligations under the Notes and could be material for the purpose of assessing the market risks associated with the Notes. If any of the following factors actually occurs, the trading price of the Notes could fall and investors may lose the value of their entire investment or part of it. These factors are contingencies that may or may not occur and we are not in a position to express a view on the likelihood of any such contingencies occurring.

## Risks relating to our business

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

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

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

The global financial crisis has also had a lasting effect on consumer and business behaviour in the advanced economies. Consumers have generally acted more cautiously, while businesses have been reluctant to invest and inflation has remained low. Monetary authorities responded by introducing zero or near-zero interest rates across most countries, and the major central banks have taken unconventional steps to support growth and raise inflation. While some economic factors have recently improved and some monetary authorities have begun to increase interest rates, lasting impacts from the global financial crisis and the potential for escalation in geopolitical risks suggest ongoing vulnerability and potential adjustment of consumer and business behaviour.

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

Changes in global political conditions, such as the 'Brexit' referendum in the United Kingdom on June 23, 2016 (and the related negotiations with the European Union) and the commencement of Donald Trump's presidency in January 2017, have the potential to lead to extended periods of increased political and economic uncertainty and volatility in the global financial markets. This is in part due to the unknown consequences for global trade, the broader global economy and financial markets. Political and economic uncertainty has in the past led to declines in market liquidity and activity levels, volatile market conditions, a contraction of available credit, lower or negative interest rates, weaker economic growth and reduced business confidence, each of which could adversely affect us. In particular, these conditions may adversely affect our ability to raise medium or long-term funding in the international capital markets.

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

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

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

***Changes in political, general business and economic conditions in New Zealand and other parts of the world may adversely impact our results and financial condition and we can give no assurance as to the likely future state of such conditions.***

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

As we conduct substantially all of our lending business in New Zealand, our performance is greatly influenced by economic conditions in New Zealand, including the level and cyclical nature of business activity, which in turn is affected by both domestic and international economic and political events. Annual economic growth in New Zealand has been positive since 2011, although economic conditions continue to fluctuate. Influences that may have an adverse effect on economic conditions include: the lagged impact of previous NZD strength, lower export commodity prices, the demand for and price of dairy products, reduced demand for New Zealand exports, slowing household income growth, adverse movements in residential property prices and a reduction in the strength of inward migration. A material downturn in the New Zealand economy could materially and adversely impact our results of operations, liquidity, capital resources and financial condition.

Economic and political factors and events in New Zealand which could adversely affect our performance and results include, but are not limited to, the recent change in the New Zealand government and the implementation of new policies (such as proposed policies relating to the examination of agricultural debt mediation, the review and reform of the Reserve Bank Act and the strengthening of New Zealand's foreign investment legislation), commodities volatility and results, short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, relative changes in foreign exchange rates, consumer confidence, the overall level of indebtedness of the economy and the relative strength of the New Zealand economy. For example, a general economic downturn, a fall in the housing market or the rural property market (including a decline in housing or rural property prices), a continued decrease in immigration, a continued increase in unemployment, or other events that negatively affect household or corporate incomes in New Zealand could decrease our asset values and the demand for our loan and non-loan products and services and increase the number of customers who fail to pay interest or repay principal on their loans. In addition, a significant housing market correction could challenge financial stability given the large exposure of the banking system to the Auckland housing market.

Current economic conditions impacting us and our customers include changes in the real estate market in New Zealand (see "Risk Factors—Risk relating to our business—A weakening of the real estate market in New Zealand could materially and adversely impact our financial condition and operations").

New Zealand economic conditions may also be affected by geopolitical instability, including, among other factors, actual or potential conflict and terrorism. Our future performance may also be affected by the economic conditions of other regions with economic connections to New Zealand (in particular, New Zealand's major trading partners such as Australia or China). Slower growth and uncertainty regarding global growth in the future may depress global commodity prices, particularly dairy and agricultural prices, and add to financial market uncertainty. A further or sustained slowdown in global economic growth or a decline in commodity prices could depress the volume and price of New Zealand's exports, such as dairy products, with negative flow-on effects for farmers and those industries closely tied to the agricultural sector.

In addition, movements in the New Zealand dollar in recent times 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 service obligations in New Zealand dollar terms of unhedged exposures. In contrast, an appreciation in the New Zealand dollar relative to other currencies could negatively impact New Zealand's agricultural exports and international tourism.

Natural disasters such as (but not restricted to) earthquakes, cyclones and floods, and the economic and financial market implications of such disasters on domestic and global conditions can adversely impact the ANZ New Zealand Group's business, operations and financial condition.

***Competition may adversely impact our results and financial condition.***

The financial services sector in New Zealand is highly competitive, particularly in those segments that are considered to provide higher growth prospects. Factors that contribute to competition risk include industry regulation, mergers and acquisitions, changes in customers' needs and preferences, entry of new participants, development of new distribution and service methods and technologies, increased diversification of products by competitors and regulatory changes in the rules governing the operations of banks and non-bank competitors. For example, in New Zealand non-banks are able to offer products and services traditionally provided by banks, such as automatic payment systems, mortgages, and credit cards. In addition, existing companies from outside of the traditional financial services sector may seek to obtain banking licenses to directly compete with us by offering products and services traditionally provided by banks. In addition, banks organized in jurisdictions outside New Zealand are subject to different levels of regulation and some may have lower cost structures, which may make these banks more competitive in our markets. Competition in the financial services sector can be intense and difficult to predict. Currently there is significant competition for customer deposits and residential secured mortgages among New Zealand banks. This is likely to continue as banks seek to diversify their sources of funding and drive asset growth.

We rely on bank deposits to fund a significant portion of our balance sheet. We compete with banks and other financial services firms for such deposits. Increased competition for deposits could increase our cost of funding. To the extent that we are not able to successfully compete for deposits, we would be forced to rely more heavily on other, less stable or more expensive forms of funding, or to reduce lending. This could adversely affect our business, prospects, financial performance or financial condition.

Additionally, digital technologies and business models are changing customer behavior and the competitive environment. Emerging competitors are increasingly utilizing new technologies and seeking to disrupt existing business models in the financial services sector.

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

***Regulatory actions may adversely impact our results and financial condition.***

We are subject to laws, regulations and codes of practice in New Zealand, Australia and other countries in which we operate, trade, raise funds or in respect of which we have some other connection (including the United Kingdom and the United States). These regulations vary from country to country but generally are designed to protect depositors and the banking system as a whole, rather than holders of any Notes or any other counterparties of the Issuers. In particular, the ANZ New Zealand Group's banking, funds management, and insurance activities are subject to extensive regulation, mainly relating to its liquidity levels, capital, solvency, provisioning, and insurance policy terms and conditions. As a result of the global financial crisis, we continue to expect increased regulatory focus on capital and liquidity requirements, customer relations and other aspects of our business that may impose increased regulatory burdens. For example, the RBNZ, APRA, the Basel Committee on Banking Supervision and regulators in other jurisdictions have revised standards and released discussion papers, proposals and decisions in regards to strengthening the resilience of the banking and insurance sectors, including proposals and decisions to strengthen capital and liquidity requirements for the banking sector (widely known as "**Basel III**"). Such institutions continue to revise standards, and release discussion papers, proposals and decisions to strengthen capital and liquidity requirements for the banking sector.

The New Zealand Government and its agencies, including the RBNZ, the New Zealand Commerce Commission (the "**Commerce Commission**") and the New Zealand Financial Markets Authority ("**FMA**"), have supervisory oversight over us. To the extent that we have operations, trade or raise funds in, or have some other connection with, countries other than Australia or New Zealand then such activities may be subject to the laws of, and regulation by agencies in, such countries, such as U.S. governmental agencies, including the Federal Reserve Board, the U.S. Department of Treasury and the Office of the Comptroller of the Currency, and United Kingdom agencies, including the Financial Conduct Authority, and other financial industry regulatory bodies in those countries and in other relevant countries. To the extent that these regulatory requirements limit our operations or flexibility they could adversely impact our profitability and prospects. In addition, our failure to comply with applicable laws, regulations or codes of practice could result in the imposition of sanctions by regulatory agencies, compensatory action by affected persons, and could damage our reputation, in any jurisdiction.

These regulatory and other governmental agencies (including revenue and tax authorities) frequently review banking and tax laws, regulations and policies. Changes to laws, regulations or codes of practice, including changes in interpretation or implementation of laws, regulations or policies, could affect us in substantial and unpredictable ways and may even conflict with each other. These may include, among other things, increasing required levels of bank liquidity and capital adequacy, requiring changes to systems and processes, limiting the types, amount and composition of financial services and products we may offer, constraining outsourcing or offshoring arrangements and/or increasing the ability of non-banks to offer competing financial services and products, as well as changes to accounting standards, taxation laws and prudential regulatory requirements. For instance, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**") has many different components that affect many aspects, in the United States and internationally, of the business of banking, including securitization, proprietary trading, investing, over-the-counter ("**OTC**") derivatives and other activities, and is currently under review as a result of an executive order released in February 2017. The Commodity Futures Trading Commission (the "**CFTC**") has implemented most of its rules for the regulation of the OTC swaps market and U.S. regulators have adopted rules implementing the Volcker Rule, each of which affects our business. See "Regulation and Supervision—Dodd Frank".

The Credit Contracts and Consumer Finance Amendment Act 2014 ("**CCCFA 2014**") came fully into force in New Zealand on June 6, 2015 and introduced responsible lending principles and strengthened consumer rights in lending transactions. The Ministry of Consumer Affairs has published a responsible lending code setting out guidance for lenders on compliance with the responsible lending principles in the CCCFA 2014. Although the code is not binding on lenders, in any proceeding relating to the Credit Contracts and Consumer Finance Act 2003, evidence of compliance with the code will be treated as evidence of compliance with the binding responsible lending principles in the CCCFA 2014. Now that the revised law and new code have been operational for an extended period of time, we consider that it is reasonable to anticipate an increase in surveillance and review work by the Commerce Commission across the industry.

ANZ New Zealand is a registered bank under the Reserve Bank Act and supervised by the RBNZ. As part of its registration, ANZ New Zealand is subject to Conditions of Registration imposed by the RBNZ. For details of ANZ New Zealand's current Conditions of Registration, see "Regulation and Supervision—Conditions of Registration for ANZ Bank New Zealand Limited". The Conditions of Registration may be changed at any time, though the RBNZ is required to give ANZ New Zealand notice and consider submissions made by ANZ New Zealand prior to any such change.

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

ANZ New Zealand is required to comply with Conditions of Registration 11 and 24 regarding outsourcing arrangements. The RBNZ issued a revised outsourcing policy ("**BS11**") on September 19, 2017, and ANZ New Zealand's revised Conditions of Registration, updating Conditions of Registration 11 and 24, came into force on October 1, 2017. The new policy will apply to all outsourcing arrangements entered into from the effective date, while existing outsourcing arrangements have five years to transition to compliance with the new policy. Non-compliance with the Conditions of Registration in relation to outsourcing may lead to enforcement action by the RBNZ, including imposition of fines or further restrictions on our use of outsourcing. See "Regulation and Supervision—RBNZ's revised outsourcing policy" for further discussion.

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

The RBNZ has announced that it is undertaking a comprehensive review of the capital adequacy framework applying to incorporated registered banks in New Zealand over 2017/2018. The aim of the review is to identify the most appropriate framework for setting capital requirements for New Zealand banks, taking into account how the current framework has operated and international developments in bank capital requirements. The RBNZ has published an Issues Paper which sought feedback from stakeholders around the proposed scope of the review and a consultation paper on what types of financial instruments should qualify as capital. Further detailed consultation documents on policy proposals will be released later in 2017, with a view to concluding the review by the first quarter of 2018. See "Regulation and Supervision—RBNZ review of capital requirements" for further discussion.

APRA has reviewed the level of financial exposures that can be provided to the respective New Zealand banking subsidiaries and branches ("**New Zealand operations**") of the Australian parent banks of New Zealand's four largest banks, including ANZBGL. APRA has confirmed that, by 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 during ordinary times. Exposures in excess of this limit as at January 1, 2016 must be reduced in equal percentages over the five year transition period and may not increase above the exposures as at June 30, 2015. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to ANZ New Zealand during times of financial stress. These, or future, APRA requirements may have an adverse effect on our business, results of operations, liquidity, capital resources or financial condition. See "Regulation and

Supervision—Restrictions on ANZBGL's ability to provide financial support—Effect of APRA's Prudential Standards" for further discussion.

As part of its 2017-18 federal budget, the Australian Government imposed a levy on liabilities for certain large banks, including the ANZ Group, with effect from July 1, 2017 (the "**Major Bank Levy**"). Based on the ANZ Group's March 31, 2017 balance sheet, the ANZ Group estimates that the financial impact of the Major Bank Levy on the ANZ Group will be approximately A$345 million before tax, and approximately A$240 million after tax, per annum. As a member of the ANZ Group, changes to the performance of the ANZ Group or changes to the estimated impact of the Major Bank Levy may have an impact on us.

In recent years there have been significant increases in the nature and scale of regulatory investigations and reviews, public inquiries and commissions, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators globally, particularly against financial institutions. The nature of these investigations and reviews can be wide-ranging, and the resolution of such investigations and reviews may involve fines and a range of other sanctions.

***We are exposed to the risk of significant fines and sanctions in the event of breaches of regulation and law relating to anti-money laundering, counter-terrorism financing and sanctions.***

Anti-money laundering, counter-terrorist financing and sanctions compliance have been the subject of significant regulatory change and enforcement in recent years. The increasingly complicated environment in which we operate across the Asia-Pacific region has heightened these operational and compliance risks. Furthermore, the upward trend in compliance breaches by global banks and the related fines and settlement sums means that these risks continue to be an area of focus for ANZ New Zealand.

Following the Australian Transaction Reports and Analysis Centre's civil penalty proceedings in 2017 against a major Australian bank relating to alleged past and ongoing contraventions of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth), there may be increased regulatory scrutiny of other Australian banks, including the ANZ Group, as well as increased regulatory scrutiny of ANZ New Zealand by New Zealand regulators.

The risk of non-compliance with anti-money laundering, counter-terrorist financing and sanction laws remains high given the scale and complexity of our business. A failure to operate a robust program to combat money laundering, bribery and terrorist financing or to ensure compliance with economic sanctions could have serious legal and reputational consequences for ANZ New Zealand and its employees. Consequences can include fines, criminal and civil penalties, civil claims, reputational harm and limitations on doing business in certain jurisdictions.

***A weakening of the real estate market in New Zealand could materially and adversely impact our financial condition and operations.***

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

Declining asset prices could impact customers and counterparties and the value of the security (including residential and rural property) we hold against loans, which may impair our ability to recover amounts owing to us if our customers or counterparties were to default. In recent years, there has been strong house price growth, particularly in Auckland, with the RBNZ noting Auckland's house price-to-income ratio is among the highest in the world. Recent increases in house prices have been attributed to low interest rates, steady income growth, and an imbalance between demand and supply. During the 2017 calendar year, house price growth has slowed, particularly in Auckland. This reflects a combination of tighter loan-to-value ratio ("**LVR**") restrictions since October 2016, a more general tightening in bank lending standards, an increase in mortgage interest rates in early 2017 and uncertainty related to the recent change in government in September 2017. While house prices are no longer rising rapidly, house prices remain elevated relative to incomes and rents. Declining asset prices and a reversal of house price growth could adversely impact our financial condition and operations.

A significant decrease in New Zealand housing valuations triggered by, for example, an event or a series of events in the local or global economy or lack of confidence in market values, could adversely impact our home lending activities. Should borrowers with loans in excess of their property value default, then our security values would be eroded, causing us to incur higher credit losses, which could adversely affect our financial performance and condition. The demand for our home lending products may also decline due to buyer concerns about decreases in values or concerns about rising interest rates, which could make our lending products less attractive to potential homeowners and investors.

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

A significant decrease in rural property valuations or a significant slowdown in other real estate markets where we do business could result in a decrease in the amount of new lending we are able to write and/or increase the losses that we may experience from existing loans, which, in either case, could materially and adversely impact our financial condition and operations.

***We are subject to market risk (including foreign currency exchange risk) and liquidity risk, which may adversely affect our business, operations and financial condition.***

Market risk is the risk of loss arising from adverse changes in interest rates, currency exchange rates, credit spreads or from fluctuations in bond, commodity or equity prices. Losses arising from these risks may adversely affect our business, operations and financial condition. For the purposes of financial risk management, we differentiate between traded and non-traded market risks. Traded market risks principally arise from our trading operations in interest rates, foreign exchange, commodities and securities. Non-traded market risk is predominantly interest rate risk in our banking book.

We are also exposed to liquidity risk, which is the risk that we are unable to meet our payment obligations as they fall due (including repaying depositors or maturing wholesale debt) or that we have insufficient capacity to fund increases in assets. Liquidity risk is inherent in all banking operations due to the timing mismatch between cash inflows and cash outflows.

Reduced liquidity could lead to an increase in the cost of our borrowings and constrain the volume of new lending, which could adversely affect our profitability. A deterioration in investor confidence in us could materially impact our cost of borrowing, and our ongoing operations and funding.

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

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

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

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

The previous appreciation in the New Zealand dollar relative to other currencies adversely affected, and could continue to have an adverse effect on, certain portions of the New Zealand economy, including agricultural exports, international tourism, manufacturers, and import-competing producers. The depreciation in the New Zealand dollar during the 2017 calendar year relative to other currencies will increase debt service obligations in New Zealand dollar terms of unhedged exposures.

***We are subject to credit risk, which could have a material adverse effect on our financial performance.***

As a financial institution, we are exposed to the risks associated with extending credit to other parties. Less favorable business or economic conditions, whether generally or in a specific industry sector or geographic region or natural disasters, could cause customers or counterparties to experience adverse financial consequences, thereby exposing us to the increased risk that those customers or counterparties will fail to meet their obligations in accordance with agreed terms. For example, customers and counterparties in the New Zealand dairy industry, which is particularly exposed to excess milk production from other developed countries being sold into traditional markets, could be materially and adversely impacted by a decline in commodity prices and, as a result, could fail to meet payment obligations. There is significant variation in the cost structures across New Zealand dairy farms, and some farms may struggle to achieve profitability. As a result, problem loans may increase.

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

We hold provisions to cover credit impairment. The amount of these provisions is determined by assessing the extent of impairment inherent within the current lending portfolio, based on current information. This process, which is critical to our financial results and condition, requires difficult, subjective and complex judgements, including forecasts of how current and future economic conditions might impair the ability of borrowers to repay their loans. However, if the information upon which the assessment is made proves to be inaccurate or if we fail to identify factors properly or fail to estimate accurately the impact of factors that are identified, the provisions made for credit impairment may be insufficient, which could have a material adverse effect on our financial performance.

***We may experience challenges in managing our capital base, which could give rise to greater volatility in capital ratios, and materially impact our business and our ability to obtain funding.***

Our capital base is critical to the management of our businesses and access to funding. We are required by the RBNZ to maintain adequate regulatory capital, and changes to the capital adequacy requirements imposed by the RBNZ could affect our business.

Under current regulatory requirements, risk weighted assets and expected loan losses increase as a counterparty's risk grade worsens. These additional regulatory capital requirements compound any reduction in capital resulting from increased provisions for loan losses in times of stress. As a result, greater volatility in capital ratios may arise and may require us to hold additional capital.

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

Global and domestic regulators, including the Basel Committee have released proposals and decisions to strengthen, among other things, the liquidity and capital requirements of banks and funds management and insurance entities. These proposals and decisions, together with any risks arising from any regulatory changes, are described above in the risk factor entitled "Regulatory actions may adversely impact our results and financial condition" and in the section entitled "Regulation and Supervision".

***Failure to maintain our credit ratings and those of our subsidiaries could adversely affect our cost of funds, liquidity, competitive position and access to capital markets.***

The credit ratings assigned to us and our subsidiaries by rating agencies are based on an evaluation of a number of factors, including our ability to maintain a stable earnings stream, capital ratios, credit quality and risk management controls, funding sources, and liquidity monitoring procedures. A credit rating downgrade could be driven by the occurrence of one or more of the other risks identified in this section or by other events. In addition, a reduction in ANZBGL's credit ratings or in New Zealand's sovereign credit rating could adversely affect our credit ratings. New Zealand's sovereign credit rating could be negatively impacted by a variety of factors, including policy, legislation and regulatory changes implemented by New Zealand's new government. As of the date of this Offering Memorandum, it is uncertain whether the policies of New Zealand's new government will impact New Zealand's sovereign credit rating.

On December 8, 2016, Fitch revised their outlook on Australia's banking sector from stable to negative but, notwithstanding this revision, Fitch indicated that the ratings of the major Australian banks, including ANZBGL, and their New Zealand subsidiaries remained on stable outlook. On March 7, 2017, Fitch affirmed the ratings of the major Australian banks, including ANZBGL, with a stable outlook. On July 25, 2017, Fitch affirmed the ratings of ANZ New Zealand as AA- (long term) and F1+(short term) with stable outlook.

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

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

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

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

***Disruption of information technology systems or failure to successfully implement new technology systems could significantly interrupt our business, which could adversely impact our business and have a material adverse effect on our financial condition and operations.***

We and our service offerings (including digital banking) are highly dependent on information systems, applications and technology. There is a risk that these information systems, applications and technology, or the services we use or are dependent upon, might fail, including because of unauthorized access or use.

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

We may also be exposed to system failure risks, which include the complete or partial failure of information technology systems or data centre infrastructure and the inadequacy of internal and third party information technology systems due to, among other things, failure to keep pace with industry developments and the inability of the existing systems to effectively accommodate growth, prevent unauthorized access and integrate existing and future acquisitions and alliances. To manage these risks, we have disaster recovery and information technology governance in place. However, there can be no assurance that the steps we are taking in this regard will be effective and any failure of these systems could result in business interruption, customer dissatisfaction, legal or regulatory breaches and liability and ultimately loss of customers, payment of financial compensation, damage to reputation and/or a weakening of our competitive position, which could adversely impact our business and have a material adverse effect on our financial condition and operations.

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

***We are exposed to risks associated with information security including cyber-attacks, which could adversely affect our financial results and reputation.***

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

We employ a team of information security experts which is responsible for the development and implementation of the ANZ Group’s information security policy. We also use third parties to process and manage information on our behalf, and any failure by such third parties could adversely affect our business. We are conscious that threats to information systems are continuously evolving and that cyber threats, including but not limited to, cyber compromise, advanced persistent threats, distributed denial of service, malware and ransomware attacks, and the risk of such attacks are increasing, and as such we may be unable to develop policies and procedures to adequately address or mitigate such risks. Accordingly, information about us and/or our clients may be inadvertently accessed, inappropriately distributed or illegally accessed or stolen. We may not be able to anticipate or to implement effective measures to prevent or minimize damage that may be caused by all information security threats because the techniques used can be highly sophisticated and those undertaking the attacks may be well resourced. Any unauthorized access to our information systems or unauthorized use of our confidential information could potentially result in disruption of our operations, breaches of privacy laws, regulatory sanctions, legal action, and claims for compensation or erosion of our competitive market position, which could adversely affect our financial results and reputation.

***We may be exposed to the impact of future climate change, geological events, plant, animal and human diseases, and other extrinsic events which may adversely affect our business, operations and financial condition.***

We may be exposed to climate-related events (including climate change). These events may include severe storms, droughts, cyclones, hurricanes, floods and rising sea levels. The impact of such events may temporarily interrupt or restrict the provision of some of our services and also adversely affect our collateral position in relation to credit facilities extended to customers, which may adversely affect our business, operations and financial condition.

We may also be exposed to other events such as geological events (e.g., seismic or volcanic activity or tsunamis), plant, animal or human diseases (e.g., flu pandemic) or other extrinsic events. These may severely disrupt normal business activity and have a negative effect on our business, operations and financial condition. Examples of this are the major earthquakes in the Canterbury and Kaikoura areas. A reduction in the value of New Zealand residential and commercial property as a result of geological events could increase provisioning and lending losses which would adversely affect our business, operations and financial condition.

***We are subject to acquisition, divestment and restructuring risk which may materially and adversely impact our results and financial condition.***

We regularly examine a range of corporate opportunities, including material acquisitions and divestments, with a view to determining whether those opportunities will enhance our strategic position and financial performance. Potential divestments by us include the conditional sale of UDC to HNA Group, which is subject to closing steps and regulatory approval, and may not occur if the conditions are not met. ANZ New Zealand's funds management business, including KiwiSaver, will be retained as it is considered core to ANZ New Zealand's business. Insurance is also an important product for ANZ New Zealand's customers. A decision has not been made on whether ANZ New Zealand will continue to manufacture life insurance. Any corporate opportunity that is pursued could, for a variety of reasons, turn out to have a material adverse effect on our financial condition or results of operations. The successful implementation of our corporate strategy will depend on a range of factors such as potential funding strategies and challenges associated with integrating and adding value to acquired businesses.

There can be no assurance that any acquisition (or divestment) would have the anticipated positive results, including the consummation of the contractual and commercial terms, results relating to the total cost of integration (or separation), the time required to complete the integration (or separation), the regulatory approvals required, the amount of longer-term cost savings, the overall performance of the combined (or remaining) entity, or an improved price for ANZ Group securities. Our operating performance, risk profile and capital structure may also be affected by these corporate opportunities, impairments may be recorded for certain divestments and there is a risk that any of our credit ratings may be placed on credit watch or downgraded if these opportunities are pursued.

Integration (or separation) of an acquired (or divested) business can be complex and costly, sometimes including combining (or separating) relevant accounting and data processing systems, and management controls, as well as managing relevant relationships with employees, customers, regulators, counterparties, suppliers and other business partners. Integration (or separation) efforts could create inconsistencies in standards, controls, procedures and policies, as well as divert management attention and resources. This could adversely affect the ANZ New Zealand Group's ability to conduct its business successfully and impact the ANZ New Zealand Group's operations or results. Additionally, there can be no assurance that employees, customers, counterparties, suppliers and other business partners of newly acquired businesses will remain as such post-acquisition (or post-divestment), and the loss of employees, customers, counterparties, suppliers and other business partners could adversely affect the ANZ New Zealand Group's operations or results.

Acquisitions, divestments and restructuring may also result in business disruptions that cause the ANZ New Zealand Group to lose customers or cause customers to remove their business from the ANZ New Zealand Group to competing financial institutions. It is possible that the integration (or separation) process related to acquisitions, divestments and restructurings could result in the disruption of the ANZ New Zealand Group's on-going businesses or inconsistencies in standards, controls, procedures and policies that could adversely affect the ANZ New Zealand Group's ability to maintain relationships with employees, customers, counterparties, suppliers and other business partners which could adversely affect the ANZ New Zealand Group's ability to conduct its business successfully.

***Changes in fiscal and monetary policies may have a material adverse effect on our business operations and financial condition.***

The RBNZ regulates the supply of money and credit in New Zealand. Its policies determine, in large part, the cost of funds to us for lending and investing and the return we will earn on those loans and investments. Both of these affect our net interest margin and can materially affect the value of financial instruments we hold, such as debt securities and hedging instruments. The measures and policies of the RBNZ can also affect our borrowers, potentially increasing the risk that they may fail to repay their loans. On November 7, 2017, the

Minister of Finance announced that the Reserve Bank Act will be reviewed and reformed. The Terms of Reference for the review indicate that there may be changes to both the RBNZ's decision-making model for monetary policy decisions, and the factors that decision-makers are required to consider when implementing monetary policy. See "Regulation and Supervision—Review of the Reserve Bank Act" for further discussion. Changes in interest rates and monetary policy are difficult to accurately predict and may have a material adverse effect on our business, operations and financial condition.

***Sovereign risk may destabilize global financial markets adversely affecting all participants, including adversely affecting our liquidity, financial performance or financial condition.***

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

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

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

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

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

***We are subject to operational risk, which may adversely impact our results.***

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

Loss from operational risk events could adversely affect our financial results. Such losses can include fines, penalties, loss or theft of funds or assets, legal costs, customer compensation, loss of shareholder value, reputational loss, loss of life or injury to people, and loss of property and/or information.

Operational risk is typically classified into risk event type categories to measure and compare risks on a consistent basis. For examples of operational risk events, see the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Operational Risk".

Direct or indirect losses that occur as a result of operational failures, breakdowns, omissions or unplanned events could adversely affect our financial results.

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

***We are subject to reputational risk, which may adversely impact our business, operations and financial condition.***

Reputational risk may arise as a result of an external event or our own actions, and adversely affect perceptions about us held by the public (including our customers), shareholders, investors, regulators or rating agencies. The impact of damage to our reputation may exceed any direct cost of the damage. Damage to our reputation may also have wide-ranging impacts, including adverse effects on our profitability, capacity and cost of sourcing funding, increased regulatory scrutiny and availability of new business opportunities. Our ability to attract and retain customers could also be adversely affected if our reputation is damaged. These effects could adversely affect our business, operations and financial condition.

***We are subject to contagion and reputational risk, which may adversely impact our results and financial condition.***

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

***We may be exposed to conduct-related risks pertaining to the provision of advice, recommendations or guidance about financial products and services in the course of our sales and marketing activities which may adversely affect the ANZ New Zealand Group's business and operations.***

Such risks can result from:

- the provision of unsuitable or inappropriate advice (e.g., advice that is not commensurate with a customer's needs and objectives or appetite for risk);
- the representation of, or disclosure about, a product or service which is inaccurate, or does not provide adequate information about risks and benefits to customers;
- a failure to deliver product features and benefits in accordance with terms, disclosures, recommendations and/or advice;
- a failure to appropriately avoid or manage conflicts of interest;
- sales and/or promotion processes (including incentives and remuneration for staff engaged in promotion, sales and/or the provision of advice);
- the provision of credit, outside of the Group's policies and standards; and
- trading activities in financial markets, outside of our policies and standards.

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

Inappropriate advice about financial products and services may result in material litigation (and associated financial costs) and together with the failure to avoid or manage conflicts of interest, may expose us to regulatory actions, restrictions or conditions on banking licenses and/or reputational consequences, which may adversely affect our business and operations.

***We are exposed to insurance risk and potential fluctuations in investment and global securities markets, which may adversely affect our results and financial condition.***

Insurance risk is the risk of loss due to unexpected changes in current and future insurance claim rates. In the life insurance business, insurance risk arises primarily through mortality (death) and morbidity (illness and injury) risks being greater than expected and, in the case of annuity business, should annuitants live longer than expected. In August 2015, we ceased to issue home, car and travel insurance and became a distributor only of these products. The only general insurance risk insured now is a small amount of involuntary unemployment benefits. We have increased exposure to insurance risk in both our life insurance and general insurance business, which may adversely affect our businesses, operations and financial condition.

The profitability of our funds management and insurance business is affected by changes in investment markets and weaknesses in global securities markets due to credit, liquidity or other problems which could result in a decline in our revenues from our funds management and insurance business.

***We may face increased compliance costs as a result of United States tax legislation and Organisation for Economic Co-operation and Development ("OECD") pronouncements.***

The U.S. Foreign Account Tax Compliance Act ("**FATCA**") requires non-United States financial institutions to undertake specific customer due diligence and provide information on account holders who are U.S. citizens or tax residents to the United States Federal tax authority, the Internal Revenue Service ("**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, a non–U.S. institution may be subjected to a 30% withholding tax on certain amounts. While such withholding tax may currently apply only to certain periodic payments derived from sources within the United States (and, beginning on January 1, 2019, certain gross proceeds from the disposition of assets that can give rise to such U.S. source payments), no such withholding tax will be imposed on any payments derived from sources outside the United States that are made prior to January 1, 2019, at the earliest.

New Zealand has signed an intergovernmental agreement ("**IGA**") with the United States and has enacted legislation to implement its agreement with the United States. Local guidance in relation to the enacted legislation is still evolving. For more information, see "Taxes—United States federal income taxation—FATCA Withholding" below.

Where ANZ New Zealand or its customers are in receipt of U.S. source income, U.S. Chapter 3 (U.S. non-resident alien withholding and reporting obligations) and U.S. Chapter 4 (the FATCA Regulations) also require ANZ New Zealand to provide certain information to U.S. payers (withholding agents, custodians, etc.). ANZ New Zealand or its customers may face U.S. penalty withholding tax if it does not provide such information in compliance with the applicable rules and regulations.

The OECD's Common Reporting Standard ("**CRS**") provides for the automatic exchange of financial account information in tax matters. The CRS has already commenced in a number of countries including the Cayman Islands, Hong Kong, India, Singapore, and South Korea. New Zealand has legislated for the CRS to apply from July 1, 2017 (with government to government exchange of information to take place by September 30, 2018). New Zealand financial institutions that do not fully comply with all the requirements of the CRS will be subject to administrative penalties.

Holders of Notes may be required to provide certain information and certifications to ensure compliance with the CRS. CRS requirements, though generally similar to FATCA, have significant differences and a higher standard of compliance in many aspects, including penalties for non-collection of prescribed customer information.

In line with other global financial institutions, the ANZ Group has made and is expected to make significant investments in order to comply with, in all the countries that it operates in, the extensive requirements of FATCA, the CRS and the various other in-country tax reporting initiatives. Non-compliance could impact our business, financial results or financial condition.

***We may be exposed to the risk of impairment of goodwill and other intangible assets that may adversely affect our results and financial condition.***

In certain circumstances, the ANZ New Zealand Group may be exposed to a reduction in the value of intangible assets. As at September 30, 2017, the ANZ New Zealand Group carried a goodwill balance of $3,230 million (including UDC assets held for sale). The ANZ New Zealand Group is required to assess the recoverability of this goodwill balance on at least an annual basis based on a discounted cash flow calculation. Changes in the assumptions upon which the calculation is based, together with expected changes in future cash flows, could materially impact this assessment, resulting in the potential write-off of a part or all of the goodwill balance. Similarly, as at September 30, 2017, the ANZ New Zealand Group carried capitalized software balances and other intangible assets of $178 million and the recoverability of these assets is assessed for indicators of impairment at least annually. In the event that software is no longer in use, or that the cash flows generated by the intangible assets do not support the carrying value, an impairment may be recorded, adversely impacting our results and financial condition.

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

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

- derivative instruments, including, in the case of fair value hedging, the fair value adjustment on the underlying hedged exposure with changes in fair value recognised in earnings, with the exception of derivatives designated in qualifying cash flow or net investment hedges where the change is recognised in equity and released to earnings together with the underlying hedged exposure;

- assets and liabilities classified as "held for trading";
- financial assets classified as "available for sale" with changes in fair value recognised in equity unless the asset is impaired, in which case, the decline in fair value is recognised in earnings;
- assets classified as "held for sale" where fair value is less than the original carrying amount; and
- assets and liabilities designated at fair value through profit and loss with changes recognised in earnings, with the exception of changes in fair value attributable to the own credit component of liabilities that is recognised in equity.

Generally, in order to establish the fair value of these instruments, ANZ New Zealand Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, fair values are based on discounted cash flow models or other market accepted valuation techniques. In certain circumstances, the data for individual financial instruments or classes of financial instruments used by such estimates or techniques may not be available or may become unavailable due to changes in market conditions. In these circumstances, the fair value is determined using data derived and extrapolated from market data, and tested against historic transactions and observed market trends.

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

***Application of and changes to accounting policies may adversely impact our results.***

The accounting policies and methods that we apply are fundamental to how we record and report our financial position and results of our operations. The accounting policies for the ANZ New Zealand Financial Statements for the years ended September 30, 2017 and September 30, 2016 are set forth in Note 1 to the 2017 ANZ New Zealand Financial Statements and the 2016 ANZ New Zealand Financial Statements. Management must exercise judgement in selecting and applying many of these accounting policies and methods so that not only do they comply with generally accepted accounting principles but they also reflect the most appropriate manner in which to record and report on the financial position and results of operations. However, these accounting policies may be applied inaccurately, resulting in a misstatement of financial position and results of operations.

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

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

We are subject to litigation, regulatory actions and contingent liabilities, which may adversely affect our business, operations and financial condition. While legal advice has been obtained and provisions that we believe are adequate have been made and disclosed in the 2017 Disclosure Statement, there is a risk that our actual liabilities may be larger than anticipated or that additional litigation or other liabilities will arise.

Details regarding our material contingent liabilities as at September 30, 2017, are contained in Note 23 to the 2017 ANZ New Zealand Financial Statements (attached as Annex A to this Offering Memorandum).

In recent years, there have been significant increases in the nature and scale of regulatory investigations and reviews, public inquiries and commissions, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators, particularly against financial institutions globally. The nature of these investigations and reviews can be wide-ranging and, for example, currently include a range of matters including responsible lending practices, wealth advice, product suitability, conduct in financial markets and capital market transactions.

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

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

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

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

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

As at September 30, 2017, the rights to cash flows associated with housing loans and related securities with a carrying value of $10,595 million or 6.9% of ANZ New Zealand's total assets were held in the ANZNZ Covered Bond Trust. The assets of the ANZNZ Covered Bond Trust do not qualify for derecognition as ANZ New Zealand retains substantially all of the risks and rewards of the transferred assets. Therefore, the establishment of the covered bond program and the ANZNZ Covered Bond Trust do not change ANZ New Zealand's financial statements.

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

## Risks relating to the Notes

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

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

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

***Redemption may adversely affect your return on the Notes.***

If the relevant Issuer is obligated to pay additional amounts on the Notes or, in the case of the ANZNIL Notes, ANZ New Zealand is obligated to pay additional amounts under the Guarantee, the relevant Issuer may redeem the Notes. The relevant Final Terms may specify that the Notes are redeemable at our option. We may choose to redeem your Notes at times when prevailing interest rates are lower than when you invested. In addition, if your Notes are subject to mandatory redemption, we may be required to redeem your Notes at times when prevailing interest rates are lower than when you invested. As a result, you generally will not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate equal to or higher than that applicable to your Notes being redeemed.

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

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

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

***Floating Rate Notes with caps or floors bear certain risks.***

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

***Inverse Floating Rate Notes with caps or floors bear certain risks.***

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

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

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

***Fixed/Floating Rate Notes bear certain risks.***

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

***Notes issued at a substantial discount or premium bear certain risks.***

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest bearing securities with comparable maturities.

***Modification and waivers and substitution bear certain risks.***

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

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

Upon issuance, the Notes may not have an established trading market. Although the Notes may be listed on the London Stock Exchange, we cannot ensure that a trading market for your Notes will ever develop or be maintained if developed. In addition to our creditworthiness, many factors affect the trading market for, and trading value of, the Notes. These factors include but are not limited to:

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

There may be a limited number of buyers when you decide to sell the Notes. This may affect the price you receive for such Notes or the ability to sell such Notes at all. In addition, Notes that are designed for specific investment objectives or strategies often experience a more limited trading market and more price volatility than those not so designed. You should not purchase the Notes unless you understand and know you can bear all of the investment risks involving the Notes.

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

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

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

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

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

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

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

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

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

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

A withholding tax of as high as 30% may be imposed on payments made with respect to the Notes, but the rules for calculating the amount of such withholding tax are still undetermined. This withholding tax generally will only apply to payments made on or after January 1, 2019, at the earliest, and only with respect to Notes issued or modified at least six months after the date on which final regulations implementing the rules for calculating the amount of such withholding tax are published in final form. The withholding tax, when it applies, may be imposed at any point in a series of payments unless the relevant payee (including a bank, broker or individual) at each point complies with information reporting, certification and related requirements. Accordingly, a Noteholder that holds Notes through a bank or broker could be subject to withholding if, for example, its bank or broker is subject to withholding because the bank or broker fails to comply with these requirements even though the holder itself might not otherwise have been subject to withholding. If a payment on the Notes is subject to this withholding tax, no additional amounts will be paid, and a Noteholder will receive less than the expected amount of the payment.

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

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

The London Inter-Bank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other benchmark indices are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms, such as the replacement of the British Bankers' Association ("**BBA**") as LIBOR administrator with ICE Benchmark Administration Limited, are already effective while others are still to be implemented. The implementation of such reforms and consequential changes to benchmark indices may cause them to perform differently than in the past, which could have a material adverse effect on the value of any Floating Rate Notes where the interest rate is calculated with reference to benchmark indices or may have other consequences that cannot be predicted.

Actions by bodies such as the BBA, or other regulators or law enforcement agencies may result in changes to the manner in which LIBOR is determined or the establishment of alternative reference rates. For example, on July 27, 2017, the United Kingdom's Financial Conduct Authority (the "**FCA**") committed to begin planning a transition away from LIBOR to alternative reference rates that are based on actual transactions, such as SONIA (the Sterling Over Night Index Average). The announcement indicates that the continuation of LIBOR in its current form is not guaranteed after 2021. At this time, it is not possible to predict the effect of the FCA announcement, any changes in the methods pursuant to which LIBOR rates are determined and any other reforms to LIBOR, including to the rules promulgated by the FCA in relation thereto, that will be enacted in the United Kingdom and elsewhere, which may adversely affect the trading market for LIBOR-based securities including Floating Rate Notes, or result in the phasing out of LIBOR as a reference rate for securities. In addition, any changes announced by the FCA (including the changes conveyed in the FCA announcement), ICE

Benchmark Administration Limited, as independent administrator of LIBOR, or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which the LIBOR rates are determined may result in a sudden or prolonged increase or decrease in the reported LIBOR rates. If that were to occur, the interest payment amounts and the value of any relevant Floating Rate Note may be affected. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR-based securities, including any LIBOR Notes. In particular, you should be aware that if you purchase a LIBOR Note and LIBOR is discontinued, the Calculation Agent (as defined herein) will determine interest on the affected LIBOR Note in accordance with the fall-back provisions described under "Description of the Notes and the Guarantee—Interest rates—LIBOR Notes". The operation of such provisions, being dependent in part upon the provision by major banks of offered quotations, is subject to market circumstances and the availability of rates information at the relevant time. If such quotations are not available, the interest rate may revert to the interest rate applicable to the prior interest period and, if LIBOR is discontinued, the same interest rate may continue to be the interest rate for each successive interest period until the maturity of the Notes so that the Notes will, in effect, become fixed rate Notes.

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

In general, as market interest rates rise, Notes bearing interest at a fixed rate decline in value because the premium, if any, over market interest rates will decline. For example, if you purchase a Fixed Rate Note and market interest rates increase, the market values of your Fixed Rate Note may decline. We cannot predict the future level of market interest rates.

***Risks relating to insolvency and similar proceedings in New Zealand***

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

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

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

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

## Use of Proceeds

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

## Capitalization, Funding and Capital Adequacy

The following table sets out the consolidated capitalization and capital adequacy of the ANZ New Zealand Group as at September 30, 2017. This information has been extracted from the ANZ New Zealand Financial Statements for the year ended September 30, 2017, included as part of Annex A to this Offering Memorandum. For more information concerning our capitalization and capital adequacy see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Offering Memorandum.

| | As at September 30, 2017 | |
|---|---|---|
| | (US$ millions, except as indicated)[1] | (NZ$ millions, except as indicated) |
| **Capitalization and Funding** | | |
| Settlement balances payable | 1,329 | 1,840 |
| Collateral received | 443 | 613 |
| Deposits and other borrowings | 73,447 | 101,657 |
| Derivative financial instruments | 7,099 | 9,826 |
| Current tax liabilities | 28 | 39 |
| Deferred tax liabilities | 135 | 187 |
| UDC liabilities held for sale | 786 | 1,088 |
| Payables and other liabilities | 832 | 1,151 |
| Provisions | | |
| Credit impairment | 418 | 579 |
| Other | 134 | 185 |
| Total provisions | 552 | 764 |
| Unsubordinated debt | 15,406 | 21,323 |
| Subordinated debt[2] | 2,372 | 3,283 |
| Total equity[3] | 9,234 | 12,781 |
| **Total Capitalization and Funding[4,5,6]** | 111,664 | 154,552 |
| **Capital Adequacy** | | |
| **Tier 1 capital** | | |
| *Common equity tier 1 capital* | | |
| Paid up ordinary shares issued by ANZ New Zealand | 6,205 | 8,588 |
| Retained earnings (net of appropriations) | 2,778 | 3,845 |
| Accumulated other comprehensive income and other disclosed reserves | 35 | 48 |
| *Less deductions from common equity tier 1 capital* | | |
| Goodwill and intangible assets, net of associated deferred tax liabilities | (2,456) | (3,399) |
| Cash flow hedge reserve | (31) | (43) |
| Expected losses to the extent greater than total eligible allowances for impairment | (225) | (312) |
| Common equity tier 1 capital | 6,305 | 8,727 |
| *Additional tier 1 capital* | | |
| Preference shares | 217 | 300 |
| ANZ Capital Notes | 1,764 | 2,441 |
| Capital attributable to Bonus Bond Scheme investors | 27 | 37 |
| Additional tier 1 capital | 2,007 | 2,778 |
| **Total tier 1 capital** | 8,312 | 11,505 |
| **Tier 2 capital** | | |
| *Qualifying tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements:* | | |
| NZ$ 835 million perpetual subordinated bond | 603 | 835 |
| *Less deductions from tier 2 capital* | | |
| Basel III transition adjustment[2] | (434) | (601) |
| **Total tier 2 capital** | 169 | 234 |
| **Total capital** | 8,481 | 11,739 |
| *Capital ratios (%)* | | |
| Common equity tier 1 capital | 10.7% | 10.7% |
| Tier 1 capital | 14.1% | 14.1% |
| Total capital | 14.4% | 14.4% |

| | | |
|---|---|---|
| Buffer ratio | **6.2%** | **6.2%** |

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

(2) Certain subordinated debt issued by ANZ New Zealand is subordinated in right of payment to the claims of depositors and all creditors of ANZ New Zealand and qualifies as tier 2 capital under the RBNZ's Basel III transition arrangements. Fixing the base at the nominal amount of such instruments outstanding at December 31, 2012, their recognition is capped at 20% of that base from January 1, 2017 and from January 1, 2018 onwards these instruments will not be included in regulatory capital. This has resulted in the Basel III transition adjustment specified above.

(3) Total equity at September 30, 2017 comprised (NZ$ millions):

| | As at September 30, 2017 |
|---|---|
| Ordinary share capital | **8,588** |
| Preference share capital | **300** |
| Reserves | **48** |
| Retained earnings | **3,845** |
| **Total equity** | **12,781** |

All of the ordinary share capital has been issued. The number of issued ordinary shares at September 30, 2017, was 3,345,755,498 of which 3,345,104,786 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.

(4) As at September 30, 2017, all funding was unsecured except for: UDC secured investments of $1,039 million, covered bonds of $5,325 million, securities sold under repurchase agreements of $157 million, cash collateral received on derivative financial instruments of $613 million, and derivative financial liabilities which are secured by $1,415 million of cash collateral given on derivative financial instruments.

(5) Face or contract value of contingent liabilities and guarantees outstanding as at September 30, 2017 amounted to $2,608 million.

(6) Total due to ANZBGL as at September 30, 2017, consisted of (NZ$ millions):

| | As at September 30, 2017 |
|---|---|
| Settlement balances payable | **220** |
| Deposits and other borrowings | **73** |
| Derivative financial liabilities | **2,486** |
| Payables and other liabilities | **31** |
| Subordinated debt | **1,951** |
| **Total due to ANZBGL** | **4,959** |

The following table sets out the capitalization and funding of ANZNIL as at September 30, 2017, and has been extracted from the ANZNIL Financial Statements as at September 30, 2017, attached as Annex A-1 to this Offering Memorandum.

| NZ$ millions (unless otherwise stated) | As at September 30, 2017 US$ millions[1] | |
|---|---|---|
| **Capitalization and Funding** | | |
| Accrued interest payable | **26** | **36** |
| Commercial paper | **2,687** | **3,719** |
| Current tax liabilities | **1** | **1** |
| Unsubordinated debt | **12,645** | **17,502** |
| Total equity[2] | **4** | **5** |
| **Total Capitalization and Funding[3,4,5,6]** | **15,363** | **21,263** |

(1) Translated from NZ dollars into U.S. dollars using the Noon Buying Rate on September 29, 2017 of NZ$1.00=US$0.7225.

(2) Total ANZNIL equity at September 30, 2017, 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, 2017, was 500,000.

(3) As at September 30, 2017, commercial paper of $3,719 million and unsubordinated debt of $17,502 million issued by ANZNIL were guaranteed by ANZ New Zealand.

(4) As at September 30, 2017, covered bonds with a carrying value of $5,325 million included in unsubordinated debt were also guaranteed by ANZNZ Covered Bond Trust Limited as trustee of ANZNZ Covered Bond Trust.

(5) There were no contingent liabilities and guarantees of ANZNIL outstanding as at September 30, 2017.

(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, 2017.

## Exchange Rates

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

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

in each case for the New Zealand dollar, expressed in U.S. dollars, based on the noon buying rate in New York City for cable transfers in New Zealand dollars as certified for customs purposes by the Federal Reserve Bank of New York ("**Noon Buying Rate**"). The New Zealand dollar is convertible into U.S. dollars at freely floating rates and there are currently no restrictions on the flow of New Zealand currency between New Zealand and the United States.

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

| Year ended September 30, | At Year End | High | Low | Yearly Average[1] |
|---|---|---|---|---|
| 2013 | 0.8323 | 0.8650 | 0.7711 | 0.8170 |
| 2014 | 0.7788 | 0.8814 | 0.7788 | 0.8360 |
| 2015 | 0.6390 | 0.7968 | 0.6244 | 0.7213 |
| 2016 | 0.7290 | 0.7451 | 0.6389 | 0.6901 |
| 2017 | 0.7225 | 0.7506 | 0.6849 | 0.7161 |

| Month | At Month End | High | Low | Monthly Average[2] |
|---|---|---|---|---|
| May 2017 | 0.7100 | 0.7100 | 0.6849 | 0.6946 |
| June 2017 | 0.7322 | 0.7322 | 0.7064 | 0.7233 |
| July 2017 | 0.7503 | 0.7506 | 0.7209 | 0.7358 |
| August 2017 | 0.7170 | 0.7474 | 0.7170 | 0.7303 |
| September 2017 | 0.7225 | 0.7388 | 0.7167 | 0.7259 |
| October 2017 | 0.6850 | 0.7201 | 0.6850 | 0.7041 |
| November 2017 (through November 24) | 0.6885 | 0.6952 | 0.6812 | 0.6883 |

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

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

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

**Exchange rates of New Zealand dollars per A$1.00**

| Year ended September 30, | At Year End | High | Low | Yearly Average[1] |
|---|---|---|---|---|
| 2013 | 1.1248 | 1.2794 | 1.1248 | 1.2096 |
| 2014 | 1.1216 | 1.1566 | 1.0548 | 1.0966 |
| 2015 | 1.0998 | 1.1425 | 1.0064 | 1.0789 |
| 2016 | 1.0484 | 1.1303 | 1.0270 | 1.0730 |
| 2017 | 1.0871 | 1.1107 | 1.0373 | 1.0661 |

| Month | At Month End | High | Low | Monthly Average[2] |
|---|---|---|---|---|
| May 2017 | 1.0517 | 1.0917 | 1.0517 | 1.0711 |
| June 2017 | 1.0500 | 1.0538 | 1.0386 | 1.0461 |
| July 2017 | 1.0638 | 1.0803 | 1.0428 | 1.0599 |
| August 2017 | 1.1014 | 1.1014 | 1.0680 | 1.0841 |
| September 2017 | 1.0871 | 1.1107 | 1.0871 | 1.1002 |
| October 2017 | 1.1201 | 1.1270 | 1.0888 | 1.1063 |
| November 2017 (through November 27) | 1.1081 | 1.1130 | 1.1036 | 1.1081 |

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

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

## Regulation and Supervision

### The supervisory role of the RBNZ

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

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

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

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

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

As a consequence, the RBNZ places considerable emphasis on a requirement that the banks disclose, on a quarterly basis, 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 exposure, 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 quarterly disclosure statements. 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.

At present, registered banks are required to issue disclosure statements quarterly that contain comprehensive corporate details, together with full financial statements at the full year, and unaudited interim financial statements at the half year and off-quarters. 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. From the first quarter of 2018, RBNZ is intending to publish a quarterly 'dashboard' of key information on New Zealand registered banks, sourced from information reported privately by banks to the RBNZ. The quarterly dashboard will replace the requirement to issue disclosure statements for off-quarters of the financial year. See "—Financial reporting" for further discussion.

New Zealand registered banks are required to comply with the Basel III capital adequacy requirements, as modified to reflect New Zealand conditions. From January 1 2014, the RBNZ has also required most New Zealand incorporated banks, including ANZ New Zealand, to maintain a conservation buffer of 2.5% above the minimum ratios or face restrictions on distributions. The RBNZ also has the discretion (effective from January 1, 2014) 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. Counterparty credit risk requirements and additional disclosure requirements to incorporate Basel III changes have been in effect since March 31, 2013.

New Zealand incorporated banks (including ANZ New Zealand) are required to comply with the RBNZ's Liquidity Policy ("**BS13**"). The Liquidity Policy requires banks to meet a minimum core-funding ratio of 75%, ensuring that a greater proportion of bank funding is met through retail deposits and term wholesale funding. 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 stated that it will be reviewing its liquidity policy in 2017 or 2018 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 quarterly 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, amongst 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.

**CRS**

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

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

New Zealand financial institutions that do not fully comply with the CRS may be subject to administrative penalties.

**RBNZ prudential credit controls**

The RBNZ imposes restrictions on high LVR residential mortgage lending. Revised conditions of registration came into force on October 1, 2016, requiring New Zealand banks to restrict new non property-investment residential mortgage lending over 80% LVR to no more than 10% 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 60% LVR to no more than 5% of the dollar value of a bank's new property investment residential mortgage lending. The RBNZ has also established a specific asset class for loans to residential property investors. New Zealand banks (including ANZ New Zealand) are required to hold more capital for loans to residential property investors because of higher 'Loss Given Default' rates and higher correlation factors for this asset class than for the non property-investment lending asset class.

On November 29, 2017, the RBNZ announced adjustments to LVR restrictions. From January 1, 2018, the restrictions will require that no more than 15% (currently 10%) of a bank's new mortgage lending to owner occupiers can be at LVRs of more than 80%, and no more than 5% of a bank's new mortgage lending to residential property investors can be at LVRs of more than 65% (currently 60%).

**Financial reporting**

In September 2017, the RBNZ announced its decision to remove the requirement for banks to publish 'off-quarter' disclosure statements. Instead, the RBNZ will publish a quarterly 'dashboard' of key information on New Zealand locally incorporated registered banks sourced from private reporting that banks provide to the RBNZ. The implementation of the dashboard is expected to take several months, and the RBNZ will engage with the New Zealand banking industry and other stakeholders during this process, including holding two trials before going live in late May 2018 with data from the first quarter of the 2018 calendar year.

**RBNZ review of capital requirements**

On May 1, 2017, the RBNZ published an Issues Paper announcing that it is undertaking a comprehensive review of the capital adequacy framework applying to New Zealand locally incorporated registered banks over 2017 and 2018. The aim of the review is to identify the most appropriate framework for setting capital requirements for New Zealand banks, taking into account how the current framework has operated and international developments in bank capital requirements. The capital review will focus 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 requested feedback on topics covered by the Issues Paper for which responses were due on June 9, 2017. Detailed consultation documents on policy proposals and options for each of the three components are expected to be released later in 2017, with a view to concluding the review by the first quarter of 2018.

On July 14, 2017, the RBNZ released a consultation paper on what types of financial instruments should qualify as eligible regulatory capital. The consultation paper sets out proposals for reform to the definition of eligible capital instruments and on November 7, 2017, the RBNZ published individual responses received as part of the consultation (where consent to do so was provided by the submitters). The RBNZ is currently considering the responses it received.

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

**RBNZ's revised outsourcing policy**

The RBNZ released its updated outsourcing policy ("**BS11**") on September 19, 2017, and ANZ New Zealand's revised conditions of registration came into force on October 1, 2017. BS11 will apply to all outsourcing arrangements entered into from the effective date, while existing outsourcing arrangements have five years to transition to compliance with BS11.

The key features of BS11 as it applies to ANZ New Zealand are as follows:

- all new outsourcing arrangements to or through a related party, including ANZBGL (in the case of ANZ New Zealand), require RBNZ non-objection, unless the service or function is on the "pre-approved services and functions list" or on the "whitelist" (each of which will be maintained by the RBNZ). Non-objection is not required for outsourcing to an independent third party;

- defined risk mitigants must be in place for all outsourcing arrangements. This includes mandatory contractual terms, undertaking due diligence to determine whether the provider's disaster recovery or business continuity arrangements are appropriate and, for related party outsourcing, robust back-up arrangements which are within the legal and practical control of ANZ New Zealand, and which can be deployed within 6 hours of a failure event occurring (or by the start of the next business day for some functions). At its discretion, the RBNZ may provide non-objection where there are "alternative arrangements" in place, instead of a robust back-up. Risk mitigants must be tested annually;

- where outsourcing arrangements relate to 'basic banking services', the backup arrangements must be capable of operating indefinitely on a fully automated basis. Where outsourcing arrangements do not relate to 'basic banking services', the back-up arrangements must be sufficiently robust to close out and manage the wind down of those products on a standalone basis;

- ANZ New Zealand must have a compendium of all outsourcing arrangements by October 1, 2019. The compendium must be embedded in compliance systems and form part of board and senior management oversight and governance reviews. All new outsourcing arrangements will be required to be entered onto the compendium within 20 days of becoming effective;

- ANZ New Zealand must have a separation plan that describes how ANZ New Zealand will operate services or functions that are outsourced to a related party in the event of the appointment of a statutory manager to ANZ New Zealand, or separation from ANZBGL. The separation plan must assume an abrupt loss of access to services or functions provided by related parties. A draft separation plan must be in place by April 1, 2018. A final separation plan, fully compliant with BS11, must be in place by April 1, 2022, and will be subject to annual testing; and

- an independent review is required on an annual basis during the five year transition period until full compliance is attained, assessing progress and compliance of transitioned arrangements. A triennial review is required after the transition period in addition to an annual review by internal audit of the compendium.

We have established a project to commence transition to compliance with the updated policy. The RBNZ has also indicated they will consult separately on a business continuity policy which will apply to all banks in New Zealand.

**RBNZ and MBIE review of foreign margin requirements for over-the-counter ("OTC") derivatives**

Since late 2016, the RBNZ and the New Zealand Ministry of Business, Innovation and Employment ("**MBIE**") have, in co-ordination with the New Zealand Treasury, been engaging with industry and overseas regulators to assess the likely domestic impact of new offshore derivative margin requirements. Although New Zealand has no legislative margin requirements for OTC derivatives, the OTC activities of several registered banks (including ANZ New Zealand) are impacted by margin rules being implemented in foreign jurisdictions. On July 13, 2017, MBIE and the RBNZ released a consultation paper which describes potential impediments in New Zealand legislation to compliance with foreign margin requirements (in particular, statutory moratoria on creditors' claims under insolvency or restructuring regimes, and the ranking of creditors in certain circumstances) and suggests several high level options for reform, including a preferred option which is to enact targeted legislative amendments to address those impediments. The New Zealand Bankers' Association co-ordinated an industry response to the consultation paper which was submitted on August 24, 2017. The appropriate form of any necessary amendments to existing legislation is being considered. The New Zealand legislative impediments described above have resulted in a reduction of the number of counterparties with which ANZ New Zealand is able to enter into uncleared OTC derivative transactions.

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

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

**Ministry of Business, Innovation and Employment review of the Financial Advisers Act 2008**

Since 2015 the MBIE has been conducting a review of the Financial Advisers Act 2008, which is the primary legislation governing the provision of financial advice in New Zealand. Following that review the New Zealand Government announced in 2016 its intention to amend the existing regime and an exposure draft of the Financial Services Legislation Amendment Bill (the "**Bill**") was released for submissions in early 2017. The Bill proposes a revision of the existing legislative regime and, among other things, will simplify the financial adviser types and services they can provide, will impose a duty on all financial advisers to put the interests of clients first, will remove the requirement for advice to be given by a natural person (enabling robo-advice), and will introduce more meaningful disclosure requirements. The provisions for the new financial advice regime will be placed in the Financial Markets Conducts Act 2013 ("**FMCA**") and will introduce a licensing regime at the firm level. The Bill also amends the Financial Service Providers (Registration and Dispute Resolution) Act 2008 ("**FSP Act**"). Submissions on the draft Bill closed on March 31, 2017. A number of changes to the Bill were made as a result of submissions, including introducing a duty to take reasonable steps to ensure clients understand any limitations on the nature and scope of advice. The Bill was introduced to Parliament on August 3, 2017.

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

On August 10, 2017, the Anti-Money Laundering and Countering Financing of Terrorism Act Amendment Bill (the "**AML/CFT Amendment Act**") received Royal Assent, extending the scope of the AML/CFT Act. The AML/CFT Amendment Act expands the AML/CFT Act to include some additional non-financial institution business sectors as "reporting entities", aligning with best practice recommendations set down by the Financial Action Task Force. The AML/CFT Amendment Act also extends the current suspicious transaction reporting obligation to include an obligation to report suspicious activity, expands the scope of the reliance provisions in the AML/CFT Act and creates some additional simplified customer due diligence categories.

In addition, new regulations became effective from November 1, 2017, which obligate reporting entities to report all international funds transfers exceeding NZD$1,000 along with all cash transactions exceeding NZD$10,000 to the Financial Intelligence Unit of the New Zealand Police (irrespective of any suspicion that may or may not exist relating to the underlying transaction). These regulations will sit alongside existing obligations on reporting entities to report suspicious transactions / activity.

**International Monetary Fund ("IMF") has released its Financial Sector Assessment Program ("FSAP") review**

On May 8, 2017, the IMF released its FSAP review of New Zealand. The review seeks to assess the strength and soundness of the New Zealand banking and financial services sector. Most aspects of the review are conducted against international standards by which New Zealand is not required to abide, but which the government has a publicly stated objective of seeking to act consistently with (where appropriate for New Zealand to do so). This IMF FSAP review is the first conducted in New Zealand since 2004, and comes after notable events such as the global financial crisis, finance company collapses, Canterbury earthquakes, and large scale financial services regulatory reform. The RBNZ has stated that it is considering the FSAP findings and recommendations in its areas of responsibility and the degree to which these might further its statutory purpose of promoting a sound and efficient financial system.

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

On June 8, 2017, the RBNZ released a consultation paper seeking feedback on serviceability restrictions such as DTI limits being added to its macro prudential toolkit. The RBNZ has said the purpose of the consultation is to gather feedback from the public on the prospect of including DTI limits in the Memorandum of Understanding ("**MOU**") on macro-prudential policy between the Minister of Finance and Governor of the RBNZ. The MOU determines the set of macro-prudential tools available to the RBNZ and how those tools should be used. The consultation paper outlines the RBNZ's view on these issues and states that the RBNZ would not implement a DTI policy in current market conditions, but that the DTI limits could be a useful option in the future. Feedback to the consultation was due August 18, 2017, and will be used by the RBNZ and New Zealand Government Treasury in discussing potential amendment of the MOU with the Minister of Finance.

On November 23, 2017, the RBNZ published the submissions it received as part of the consultation and a paper outlining its response. Given the RBNZ's perception of a slowdown in the housing market, it does not consider a serviceability restriction would be appropriate at the present time, but believes that it could still have a role to play in the future. If the MOU is amended to incorporate serviceability restrictions, the RBNZ considers that these restrictions should be written in such a way as to admit a range of possible formulations (not limited to DTI). The RBNZ expects to discuss the results of the consultation with the New Zealand Minister of Finance in due course. The RBNZ considers that the potential future use of serviceability restrictions could be reconsidered as part of the wider review and reform of the Reserve Bank Act (see "—Review of the Reserve Bank Act" below).

**Review of the Reserve Bank Act**

On November 7, 2017, New Zealand's Minister of Finance announced that the New Zealand Government will review and reform the Reserve Bank Act, and released the Terms of Reference for the review. The goal of the review is to modernize New Zealand's monetary and financial stability policy frameworks and the RBNZ's governance and accountability settings.

The review will be undertaken in two phases:

- Phase one will focus on widening the RBNZ's objectives to require monetary policy decision-makers to give due consideration to maximising employment when implementing monetary policy, and introducing a committee decision-making model for monetary policy decisions. The review will also consider whether changes are required to the role of the RBNZ Board as a consequence of the proposed alterations to the decision-making model. The New Zealand Government plans to introduce a Bill in early 2018 to progress the policy elements of the review.

- Phase two will involve the RBNZ and the New Zealand Treasury working together to produce a list of areas where further investigations of the RBNZ's activities are desirable. This list, and the next steps for the review, will be communicated in early 2018. Phase two will also include the review of the macroprudential framework that had already been scheduled for 2018.

**RBNZ review of mortgage bond collateral standards**

On November 17, 2017 the RBNZ released a consultation paper on its review of mortgage bond collateral standards. The consultation focuses on the terms under which the RBNZ is prepared to accept mortgage bonds (such as RMBS or covered bonds) as collateral and proposes a new Residential Mortgage Obligations ("**RMO**") standard. The RBNZ proposes to gradually phase-in RMO to replace internal RMBS under a 12-month transition period, beginning July 1, 2018 and ending June 30, 2019 (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Internal RMBS Securitization" for an explanation of ANZ New Zealand's existing RMBS facility). Consultation on the RBNZ's proposals closes on February 16, 2018.

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

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

ANZBGL is subject to extensive prudential regulation by APRA.

Under APRA's Prudential Standards, ANZBGL's ability to provide financial support to us is subject to certain requirements:

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

(b) ANZBGL should not hold unlimited exposures (i.e., should be limited to a specified time and amount) to us (e.g., not provide a general guarantee covering any of our obligations).

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

(d) the level of exposure of ANZBGL's Level 1 total capital base to us should not exceed:

(i) 50% on an individual exposure basis; or

(ii) 150% in aggregate (being exposures to all similar regulated entities related to ANZBGL).

In addition, APRA has reviewed the level of financial exposures that can be provided to the New Zealand operations of the Australian parent banks of New Zealand's four largest banks, including ANZBGL. 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 during ordinary times. Exposures in excess of this limit as at January 1, 2016 must be reduced in equal percentages over the five year transition period and may not increase above the exposures as at June 30, 2015. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to ANZ New Zealand during times of financial stress.

ANZ New Zealand sells, from time-to-time, residential mortgages into the New Zealand branch of ANZBGL to provide funding for its New Zealand business. As at September 30, 2017, the New Zealand branch held approximately $4.3 billion of residential mortgages. To satisfy APRA's requirements described above, ANZ New Zealand intends to repurchase these mortgages at approximately $1.6 billion per annum over the transition period ending December 31, 2020.

APRA has also stated that contingent funding support by ANZBGL to ANZ New Zealand during times of financial stress must be provided on terms that are acceptable to APRA and ANZBGL's exposures to ANZ New Zealand and its other New Zealand operations must not exceed 50% of ANZBGL's Level 1 Tier 1 capital base. At present, only covered bonds meet APRA's criteria for contingent funding. On this basis, ANZBGL believes it will be able to continue to provide financial support to us.

***Legal 3 Conglomerates regulations***

On July 1, 2017, APRA's Level 3 Conglomerates regulations became effective. These regulations limit the financial and operational assistance that ANZBGL can provide to us and to any entity within the ANZ Group.

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

(a) the exposures that would be approved for third parties of broadly equivalent credit status;

(b) the impact on ANZBGL's capital and liquidity position; and

(c) ANZBGL's ability to continue operating in the event of a failure by us.

These requirements are not expected to place additional restrictions on ANZBGL's ability to provide financial or operational support to us.

***Other APRA powers***

Where APRA considers that an ADI may become unable to meet its obligations or suspends payment (among other circumstances), APRA can take control of the ADI's business (including by appointment of an ADI statutory manager). APRA also has power to direct the ADI not to make payments in respect of its indebtedness and to compulsorily transfer some or all of the ADI's assets and liabilities to another ADI in certain circumstances and to increase its capital in specified circumstances. A counterparty to a contract with an ADI cannot rely solely on the fact that an ADI statutory manager is in control of the ADI's business or on the making of a direction or compulsory transfer order as a basis for denying any obligations to the ADI or for accelerating any debt under that contract or closing out any transaction relating to that contract.

The Banking Act of Australia 1959 (the "**Banking Act**")requires APRA to exercise its powers and functions for the protection of the depositors of Australian ADIs, of which ANZBGL is one, and for the promotion of financial system stability in Australia.

The requirements of the Banking Act and the exercise by APRA of its powers have the potential to impact the management of the liquidity of ANZ New Zealand and ANZNIL. Additionally, any obligation of ANZBGL to pay or to repay money to or provide support to, or in relation to, ANZ New Zealand is subordinated to other obligations or debts required to be preferred by law, including without limitation its obligations in respect of protected accounts, which benefit from a statutory priority under the Banking Act.

Section 13A(3) of the Banking Act provides that if an ADI becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are available to meet the ADI's liabilities in the following order:

(a) first, the ADI's liabilities (if any) to APRA in respect of the repayment of any amounts which APRA has paid to that ADI's depositors under the financial claims scheme (the "**Financial Claims Scheme**") established under the Banking Act;

(b) second, the ADI's debts (if any) to APRA in reimbursement of APRA's costs incurred in exercising its powers and performing its functions under the Financial Claims Scheme in respect of the ADI;

(c) third, the ADI's liabilities (if any) in Australia in relation to protected accounts that account-holders keep with the ADI (broadly, this means accounts (including deposit accounts) kept with ANZBGL that are situated in Australia and recorded in Australian dollars);

(d) fourth, the ADI's debts (if any) to the Reserve Bank of Australia;

(e) fifth, the ADI's liabilities (if any) under an industry support contract that is certified under section 11CB of the Banking Act; and

(f) sixth, the ADI's other liabilities (if any) in the order of their priority apart from paragraphs (a) to (e) above.

Section 16 of the Banking Act provides that APRA's costs (including costs in the nature of remuneration and expenses) of being in control of an ADI's business, or of having an administrator in control of an ADI's business, are payable from the ADI's funds and are a debt due to APRA. Subject to subsection 13A(3) of the Banking Act, such debts due to APRA by an ADI have priority in a winding-up of the ADI over all other unsecured debts.

Further, under section 86 of the Reserve Bank Act 1959 of the Commonwealth of Australia, debts due by a bank (such as ANZBGL) to the Reserve Bank of Australia shall in a winding-up of that bank have, subject to subsection 13A(3) of the Banking Act, priority over all other debts.

This description of the liabilities which are mandatorily preferred by law is not exhaustive.

Section 13A(4) of the Banking Act states that it is an offence for an ADI not to hold assets (excluding goodwill and any assets or other amount excluded by the prudential standards for the purposes of that subsection) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless APRA has authorized the ADI to hold assets of a lesser value. During the year ended September 30, 2017, ANZBGL has at all times held assets (excluding goodwill and any assets or other amounts prescribed by APRA) in Australia of not less than the value of ANZBGL's total deposit liabilities in Australia.

***Crisis Management Bill***

On October 19, 2017, the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Bill 2017 ("**Crisis Management Bill**") was introduced into the Commonwealth Parliament of Australia. If passed into law, the Crisis Management Bill will amend the Banking Act of Australia (among other statutes applicable to financial institutions in Australia) and is intended to enhance APRA's powers to facilitate resolution of the entities it regulates (and their subsidiaries, such as ANZ New Zealand). Additional powers which are proposed to be given to APRA under the Crisis Management Bill, which could impact ANZ New Zealand, include: greater oversight, management and directions powers in relation to the ANZ Group entities which are currently not regulated by APRA; increased statutory management powers over regulated entities within the ANZ Group in Australia; and changes which are designed to give statutory recognition to the conversion or write-off of regulatory capital instruments. At this stage, the impact of the Crisis Management Bill, if passed, is uncertain.

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

The Australian Government's 2017-18 Federal Budget announcement included a proposal to legislate for a new BEAR. The BEAR is a strengthened responsibility and accountability framework for the most senior and influential directors and executives in ADI groups ("**accountable persons**"), which may include senior executives who hold positions in subsidiaries of an ADI, such as ANZ New Zealand.

If the Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Bill 2017 is passed into law:

- ANZBGL will be required to register individuals with APRA before appointing them as accountable persons;
- where banks and their accountable persons do not meet expectations, APRA will be empowered to disqualify individuals as senior executives and directors without a court order (but subject to a right of review); and
- ANZBGL will be obliged to set remuneration policies for accountable persons consistent with BEAR, including for the deferral of certain components of that remuneration.

There is potential for the obligations of ANZBGL's and ANZ New Zealand's accountable persons under the BEAR to conflict with provisions of New Zealand law dealing with the prudential regulation of New Zealand registered banks. The Bill currently includes provisions enabling accountable persons and ANZBGL to apply to APRA for an exemption from certain requirements of BEAR, where complying with those obligations would result in a contravention of the laws of another country.

Risks to ANZ New Zealand from BEAR include the risk to its ability to attract and retain high-quality senior executives.

**Dodd-Frank**

The Dodd-Frank Act affects many aspects of the business of banking in the United States and internationally. At this time, the Dodd-Frank Act has not had a material effect on ANZ New Zealand's or ANZNIL's operations, though the ongoing development and monitoring of required compliance programs may require the expenditure of resources and management attention.

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

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

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

The ANZ Group, including ANZ New Zealand and ANZNIL, is also subject to a provision of the Dodd-Frank Act that is commonly called the "Volcker Rule", which prohibits banks and their affiliates from engaging in certain "proprietary trading" (but allows certain activities such as underwriting, market making-related and risk-mitigating hedging activities) and limits banks' sponsorship of, and investment in, private equity funds and hedge funds, subject to certain exclusions and exemptions, including those listed above as well as exemptions applicable to certain transactions and investments occurring solely outside of the United States.

**FATCA**

FATCA imposes significant U.S. withholding taxes on non-U.S. financial institutions (such as ANZ New Zealand and many of its subsidiaries and affiliates) that fail to provide the IRS with information on certain non-U.S. accounts held by U.S. persons or, in some cases, held by non-U.S. entities with substantial U.S. owners. In the case of New Zealand institutions and branches, such information is to be furnished to the New Zealand Inland Revenue Department, which would then forward the information to the IRS pursuant to the IGA between the United States and New Zealand as discussed below under "Taxes". The ANZ Group (including the ANZ New Zealand Group) has made and is expected to make significant investments in order to comply with FATCA and its reporting requirements. New Zealand has enacted legislation to implement the IGA with the United States. It is possible that ANZ New Zealand and/or ANZNIL may become subject to U.S. withholding taxes under FATCA. Further, it is also possible that ANZ New Zealand and/or ANZNIL may be required to make gross-up payments to others in respect of FATCA withholding under existing or future transaction documentation.

**Conditions of registration for ANZ Bank New Zealand Limited**

**These conditions apply on and after 1 October 2017.**

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

1. That—

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

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

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

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

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

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

For the purposes of this condition of registration,—

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

"Total capital ratio", "Tier 1 capital ratio", "Common Equity Tier 1 capital ratio", and "Total capital" must be calculated in accordance with the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

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

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

1A. That—

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

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

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

1B. That the banking group complies with all requirements set out in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

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

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

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

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

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

For the purposes of this condition of registration,—

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

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

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

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

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

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

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

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

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

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

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

For the purposes of this condition of registration,—

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

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

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

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

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

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

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

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

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

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

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

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

(d) an alternate director,—

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

(ii) for an independent director must be independent;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration:

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

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

12. That:

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

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

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

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

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

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

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

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated July 2014 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

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

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

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

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

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

15. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purposes of this condition,—

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

"SPV" means a person—

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

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

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

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

16. That—

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

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

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

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

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

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

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

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

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

(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 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

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 10% 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 October 2016:

"loan-to-valuation measurement period" means—

(a) the three calendar month period ending on the last day of December 2016; and

(b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of January 2017.

**ANZNIL**

ANZNIL is not a registered bank, and so is not directly subject to the conditions of registration imposed by the RBNZ, nor is it directly regulated by the RBNZ under the Reserve Bank Act. However, it is part of the banking group for purposes of ANZ New Zealand's registration.

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

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

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

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

## Overview

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

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

During the year ended September 30, 2016, segmental reporting was revised to reflect the integration of the Wealth segment into the Retail segment (the Wealth segment was previously reported separately). Financial information as at and for the year ended September 30, 2016 reflects the current segment definitions. Comparative financial information as at and for the year ended September 30, 2015 has been adjusted to be consistent with the 2016 year's segment definitions and the requirements of IFRS.

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

### Critical accounting policies

#### *Critical accounting policies under NZ IFRS*

The ANZ New Zealand Financial Statements are prepared in accordance with the New Zealand Financial Markets Conduct Act 2013. In addition, the ultimate parent company, ANZBGL, defines accounting policy for the ANZ Group. However, notwithstanding the existence of relevant accounting standards, there are a number of critical accounting treatments, which include complex or subjective decisions or assessments. All material changes to accounting policy are approved by the ANZ New Zealand Group's Audit Committee and ANZBGL's Audit Committee. A brief discussion of critical accounting policies applicable as at September 30, 2017 and September 30, 2016, and their impact on us follows.

See Note 1 to the 2017 ANZ New Zealand Financial Statements and the 2016 ANZ New Zealand Financial Statements (attached as Annex A) for the critical accounting policies under NZ IFRS as at September 30, 2017 and September 30, 2016.

#### *Credit provisioning*

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

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

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

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

**Derivatives and hedging**

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

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

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

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

***Goodwill***

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

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

The recoverable amount is based on value-in-use calculations. These calculations use cash flow projections based on a number of financial budgets within each segment approved by management covering a three year period. Cash flow projections are based on a range of readily available economic assumptions including GDP and CPI. Cash flows beyond the three year period are extrapolated using a 2% growth rate.

These cash flow projections are discounted using a capital asset pricing model. As at February 28, 2017, when the last valuation was prepared, a discount rate of 11.53% 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 ANZ New Zealand Group's carrying amount to exceed its recoverable amount.

As at September 30, 2017, the balance of goodwill recorded as an asset on our consolidated balance sheet as a result of acquisitions was $3,230 million (including $133 million allocated to UDC assets held for sale) ($3,233 million as at September 30, 2016).

***Software***

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

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

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

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

***Results of operations***

***Year ended September 2017 compared with year ended September 2016 (consolidated results)***

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

The table below sets forth our results for the years ended September 30, 2017, 2016 and 2015.

**Summary Income Statement**

| | | | **Year ended September 30,** | |
|---|---|---|---|---|
| NZ$ millions, unless otherwise stated | **2017**<br>**US$ millions**[1] | **2017**[2] | 2016[2] | 2015[2] |
| Interest income | **4,478** | **6,198** | 6,423 | 6,926 |
| Interest expense | **2,284** | **3,161** | 3,421 | 4,051 |
| Net interest income | **2,194** | **3,037** | 3,002 | 2,875 |
| Other operating income | **678** | **938** | 852 | 1,175 |
| Net operating income | **2,872** | **3,975** | 3,854 | 4,050 |
| Operating expenses | **1,061** | **1,468** | 1,599 | 1,512 |
| Profit before credit impairment and income tax | **1,811** | **2,507** | 2,255 | 2,538 |
| Credit impairment charge | **45** | **62** | 150 | 74 |
| Profit before income tax | **1,767** | **2,445** | 2,105 | 2,464 |
| Income tax expense | **491** | **680** | 570 | 681 |
| **Profit after income tax** | **1,275** | **1,765** | 1,535 | 1,783 |

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

(2) Source: ANZ New Zealand Financial Statements.

For the years ended September 30, 2017 and 2016, our results were reported based on three 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 consistent with those reported in the Disclosure Statements under NZ IFRS 8 *Operating Segments* and those used internally for evaluating operating segment performance and deciding how to allocate resources.

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

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

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

- Funds management and insurance income increased $11 million in 2017, driven by growth in funds under management and favorable market conditions.
- Losses on life insurance contract assets due to movements in long term interest rates used to discount future cash flows resulting in a negative revaluation of net insurance policy assets of $36 million in 2017 compared to a positive revaluation of $60 million in 2016.
- Decrease in the mark-to–market value of economic hedge derivatives. Fair value losses of $59 million were recorded in 2017, compared to fair value losses of $40 million in 2016.
- Other operating income in the core markets and balance sheet trading businesses increased by $152 million in 2017, driven by fair value gains due to movements in credit spreads and gains on derivative valuation adjustments.
- A negative derivative valuation adjustment of $43 million in 2016 was not repeated in 2017.

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

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

### Net interest income

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

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

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

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

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

- The average yield on net loans and advances decreased 42 basis points from 5.22% in 2016 to 4.80% in 2017 due to continuing customer preference for fixed rate lending.
- The average yield on commercial paper, deposits and other borrowings decreased 43 basis points from 2.79% in 2016 to 2.36% in 2017 and the average yield on unsubordinated debt decreased 22 basis points from 3.79% in 2016 to 3.57% in 2017, primarily due to a low interest rate environment.

(1) Where applicable, references to average balances and ratios calculated using average balances have been referenced to the table "Average balance sheet and interest income/expense" on page 75 of this Offering Memorandum. Unless otherwise stated, the methodology for calculating average balances is included in that table.

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

**Movements in average volume[1]**

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

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

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

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

**Other operating income**

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

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

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

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

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

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

**Operating expenses**

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

| | **Year ended September 30,** | |
|---|---|---|
| NZ$ millions | **2017** | 2016 |
| Personnel costs | **856** | 894 |

(1) Where applicable, references to average balances and ratios calculated using average balances have been referenced to the table "Average balance sheet and interest income/expense" on page 75 of this Offering Memorandum. Unless otherwise stated, the methodology for calculating average balances is included in that table.

| | | |
|---|---|---|
| Premises costs | **153** | 152 |
| Technology costs | **218** | 285 |
| Other costs | **241** | 268 |
| **Operating expenses** | **1,468** | 1,599 |

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

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

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

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

**Credit impairment charge**

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

- The individual provision charge was $30 million lower, due to a higher level of write-backs and lower levels of new provisions raised.

- The collective provision was $58 million lower driven by specific customer movements in the CommAgri business, due to transfers to impaired assets and customer upgrades across a number of sectors. These were partly offset by customer downgrades.

### Summary Balance Sheet

| NZ$ millions (unless otherwise stated) | 2017[1] US$ millions | 2017 | As at September 30, 2016 | 2015 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | **1,689** | **2,338** | 2,274 | 2,380 |
| Settlement balances receivable | **387** | **536** | 396 | 309 |
| Collateral paid | **1,022** | **1,415** | 2,310 | 1,929 |
| Trading securities | **5,537** | **7,663** | 11,979 | 12,139 |
| Investments backing insurance contract liabilities | **89** | **123** | 119 | 151 |
| Derivative financial instruments | **7,137** | **9,878** | 21,110 | 17,658 |
| Available-for-sale assets | **4,595** | **6,360** | 2,859 | 1,428 |
| Net loans and advances | **84,986** | **117,627** | 114,623 | 106,357 |
| UDC assets held for sale | **2,214** | **3,065** | - | - |
| Other assets | **493** | **683** | 701 | 740 |
| Insurance contract assets | **460** | **636** | 630 | 552 |
| Investment in associates | **5** | **7** | 7 | 4 |
| Premises and equipment | **265** | **367** | 387 | 388 |
| Goodwill and other intangibles | **2,366** | **3,275** | 3,424 | 3,492 |
| **Total assets** | **111,245** | **153,973** | 160,819 | 147,527 |
| **Liabilities** | | | | |
| Settlement balances payable | **1,329** | **1,840** | 1,771 | 1,844 |
| Collateral received | **443** | **613** | 529 | 1,687 |
| Deposits and other borrowings | **73,447** | **101,657** | 99,066 | 90,678 |
| Derivative financial instruments | **7,099** | **9,826** | 21,956 | 17,230 |
| Current tax liability | **28** | **39** | 21 | 87 |
| Deferred tax liabilities | **135** | **187** | 145 | 124 |
| UDC liabilities held for sale | **786** | **1,088** | - | - |
| Payables and other liabilities | **832** | **1,151** | 1,119 | 1,487 |
| Employee entitlements and other provisions | **134** | **185** | 206 | 191 |
| Unsubordinated debt | **15,406** | **21,323** | 20,014 | 19,403 |
| Subordinated debt | **2,372** | **3,283** | 3,282 | 2,343 |
| **Total liabilities** | **102,011** | **141,192** | 148,109 | 135,074 |
| **Total equity** | **9,234** | **12,781** | 12,710 | 12,453 |

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

### Other Banking Data

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

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

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

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

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

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

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

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

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

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

***Year ended September 2017 compared with year ended September 2016 (results by segment).***

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

- Retail

- Commercial

- Institutional

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

The following table shows the results of our business segments for the years ended September 30, 2017, 2016 and 2015:

| | | | **Year ended September 30,** | |
|---|---|---|---|---|
| NZ$ millions | **2017** | 2016 | 2015[1] Restated | 2015 |
| Retail | **977** | 903 | 835 | 697 |
| Commercial | **439** | 413 | 478 | 478 |
| Wealth | **-** | - | - | 136 |
| Institutional | **361** | 201 | 331 | 331 |
| Other | **(12)** | 18 | 139 | 141 |
| **Profit after income tax** | **1,765** | 1,535 | 1,783 | 1,783 |

(1) During the year ended September 30, 2016, segmental reporting was revised to reflect the integration of the Wealth segment into the Retail segment (the Wealth segment was previously reported separately). Comparative data for the year ended September 30, 2015 has been adjusted to be consistent with the 2016 year's segment definitions and the requirements of IFRS, including reclassifying Wealth profit after tax of $136 million from the Wealth segment to the Retail segment.

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

**Retail**

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

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

- Net interest income increased 3%, mainly due to lending volume growth. Net interest margin contracted due to unfavorable lending and deposit mix as customers switched to lower margin fixed rate products.
- Other operating income increased $11 million, due to growth in funds under management.
- Operating expenses were 4% lower, primarily due to productivity improvements and lower discretionary spending.
- The credit impairment charge decreased $23 million due to loan-to-value ratio improvements in the housing loan portfolio.
- Loans and advances increased 8% as at September 30, 2017 compared to September 30, 2016, due to housing credit growth and a net $1.7 billion transfer of mortgages held in the New Zealand branch of ANZBGL to us. Deposit volumes grew by 7% as at September 30, 2017 compared to September 30, 2016, due to a focus on deposit gathering to fund growth in lending.

**Commercial**

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

The Commercial segment includes the CommAgri business and UDC.

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

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

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

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

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

**Institutional**

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

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

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

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

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

**Other**

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

Other businesses mainly comprise support and Treasury functions that are centrally managed, with costs substantially charged to the operating business units, including (i) the shareholder functions unit, which holds the ANZ New Zealand Group's equity, including subordinated debt; (ii) certain significant items including the costs of organizational restructuring; and (iii) non-core items, including volatility related to derivatives entered into to manage interest rate and foreign exchange risk that are not designated in accounting hedge relationships but are considered to be economic hedges.

The pre-tax result in 2017 reflected the following:

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

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

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

***Year ended September 2016 compared with year ended September 2015 (consolidated results)***

On November 21, 2016, we issued our audited financial statements for the year ended September 30, 2016, which are included in the ANZ New Zealand Financial Statements attached to this Offering Memorandum as Annex A.

The table below sets forth our results for the years ended September 30, 2016 and 2015.

**Summary Income Statement**

| | | Year ended September 30, | |
|---|---|---|---|
| NZ$ millions (unless otherwise stated) | **2016** **US$ millions[1]** | **2016[2]** | 2015[2] |
| Interest income | **4,682** | **6,423** | 6,926 |
| Interest expense | **2,494** | **3,421** | 4,051 |
| Net interest income | **2,188** | **3,002** | 2,875 |
| Other operating income | **621** | **852** | 1,175 |
| Net operating income | **2,810** | **3,854** | 4,050 |
| Operating expenses | **1,166** | **1,599** | 1,512 |
| Profit before credit impairment and income tax | **1,644** | **2,255** | 2,538 |
| Credit impairment charge | **109** | **150** | 74 |
| Profit before income tax | **1,535** | **2,105** | 2,464 |
| Income tax expense | **416** | **570** | 681 |
| **Profit after income tax** | **1,119** | **1,535** | 1,783 |

(1) For the convenience of the reader, the financial data for the year ended September 30, 2016 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 30, 2016 of NZ$1.00=US$0.7290.

(2) Source: ANZ New Zealand Financial Statements.

For the years ended September 30, 2016 and 2015, our results were reported based on three 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 consistent with those reported in the Disclosure Statements under NZ IFRS 8 *Operating Segments* and those used internally for evaluating operating segment performance and deciding how to allocate resources.

Profit after income tax for 2016 compared to 2015 decreased 14%, or $248 million, to $1,535 million.

Net interest income increased 4% in 2016 from $2,875 million in 2015 to $3,002 million in 2016. The increase reflects lending volume growth partly offset by a contraction in net interest margin of 12 basis points in a competitive environment. The net interest margin decline was driven by continuing competitive pressure from local banks in the home lending and term deposit markets and a higher proportion of fixed rate home loans. Lending volumes increased 8%, mainly reflecting growth in housing lending. Customer deposits increased 8% over the 2016 year.

Other operating income decreased 27% from $1,175 million in 2015 to $852 million in 2016. The main factors contributing to this decrease include:

- Funds management and insurance income increased $29 million in 2016, driven by growth in funds under management and favorable market conditions partly offset by a non-recurring $9 million pre-tax loss arising from the sale of the OnePath medical book (nil impact on a post-tax basis).

- 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 $60 million in 2016 compared to a positive revaluation of $46 million in 2015.

- Decreases in the mark-to–market value of economic hedge derivatives. Fair value losses of $40 million were recorded in 2016, compared to fair value gains of $66 million in 2015.

- Other operating income in the markets business decreased by $144 million in 2016, driven by fair value losses from management of balance sheet risk due to movements in credit spreads and losses on derivative valuation adjustments.

The above factors were partly offset by a $10 million gain from the sale of former office premises at 1 Victoria Street, Wellington in the March 2016 half year.

Operating expenses increased 6% from $1,512 million in 2015 to $1,599 million in 2016, driven by a $110 million charge associated with changes in the application of the accounting policy for internally generated software assets. This was partly offset by productivity gains that more than offset inflationary and investment impacts.

The credit impairment charge increased from a $74 million charge in 2015 to a $150 million charge in 2016. The individual provision charge increased $68 million, due to lower write-backs and higher new provisions raised for the CommAgri business and Institutional segment customers. The collective provision was $8 million higher due to a 2015 credit cycle release not repeated in 2016, partly offset by an allocation from the collective provision to an individual provision in the Institutional segment.

**Net interest income**

The following table shows our net interest income for the years ended September 30, 2016 and 2015.

| | Year ended September 30, | |
|---|---|---|
| NZ$ millions | **2016** | 2015 |
| Interest income | **6,423** | 6,926 |
| Interest expense | **3,421** | 4,051 |
| **Net interest income** | **3,002** | 2,875 |

Net interest income totaled $3,002 million in 2016, an increase of $127 million, or 4%, over 2015. Volume growth contributed a $292 million increase and lower net interest margin contributed a $165 million decrease to net interest income. Key influences on the result are discussed below:

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

The overall interest spread decreased 2 basis points from 1.90% in 2015 to 1.88% in 2016, with the yield on total average interest earning assets decreasing 90 basis points, and the yield paid on total average interest bearing liabilities decreasing 88 basis points. Key influences on the result include the following:

- The average yield on trading securities decreased 40 basis points from 4.06% in 2015 to 3.66% in 2016, mainly in the liquidity portfolio of fixed rate government and non-government bonds.
- The average yield on net loans and advances decreased 93 basis points from 6.15% in 2015 to 5.22% in 2016 due to strong home and business lending competition.
- The average yield on commercial paper, deposits and other borrowings decreased 90 basis points from 3.69% in 2015 to 2.79% in 2016; and the average yield on debt issuances decreased 98 basis points from 4.77% in 2015 to 3.79% in 2016, primarily due to the decreasing interest rate environment.

**Movements in average volume[1]**

- Average interest earning assets increased $11,797 million, or 10%, in 2016 compared to 2015. This increase was mainly in net loans and advances which increased $9,408 million, or 9%, during 2016. This reflected growth in the housing lending market and growth in the Commercial segment.
- Average interest bearing liabilities increased $9,432 million during 2016.
- Average commercial paper, deposits and other borrowings increased $7,968 million. This growth was largely in customer deposits.
- Average debt issuances and subordinated debt increased $888 million during 2016.

(1) Where applicable, references to average balances and ratios calculated using average balances have been referenced to the table "Average balance sheet and interest income/expense" on page 75 of this Offering Memorandum. Unless otherwise stated, the methodology for calculating average balances is included in that table.

### Other operating income

The following table shows our other operating income for the years ended September 30, 2016 and 2015.

| NZ$ millions | Year ended September 30, 2016 | 2015 |
|---|---|---|
| Net fee income | **422** | 404 |
| Funds management and insurance income | **414** | 385 |
| Net gain on foreign exchange trading | **203** | 201 |
| Net gain / (loss) on trading securities and derivatives | **(191)** | 61 |
| Share of associates' profit | **5** | 5 |
| Other income | **(1)** | 119 |
| **Other operating income** | **852** | 1,175 |

Other operating income totaled $852 million in 2016, a decrease of 27%, or $323 million, over 2015. Key influences on the result include the following:

- Funds management and insurance income increased $29 million, or 8%. This was driven by: higher funds management income which increased $22 million driven by growth in funds under management due to net inflow from investors and favorable market performance, partially offset by a decrease in insurance income of $7 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 $60 million in 2016 compared to a positive revaluation of $46 million in 2015.

- The aggregate of net foreign exchange trading gains and gains on trading securities decreased $250 million in 2016 compared to 2015. This reflects losses from management of balance sheet risk due to movements in credit spreads and losses on derivative valuation adjustments.

- Other income decreased $120 million primarily due to:

  - Volatility in the mark-to-market of economic hedge derivatives. Fair value losses of $40 million were recorded in 2016, compared to fair value gains of $66 million in 2015.

  - A non-recurring $9 million pre-tax loss arising from the sale of the OnePath medical book (nil impact on a post-tax basis).

  - The above factors were partly offset by a $10 million again from the sale of former office premises at 1 Victoria Street, Wellington in the March 2016 half year.

### Operating expenses

The following table shows our operating expenses for the years ended September 30, 2016 and 2015.

| NZ$ millions | Year ended September 30, 2016 | 2015 |
|---|---|---|
| Personnel costs | **894** | 876 |
| Premises and equipment costs | **152** | 153 |
| Technology costs | **285** | 199 |
| Other costs | **268** | 284 |
| **Operating expenses** | **1,599** | 1,512 |

Operating expenses totaled $1,599 million for 2016, an increase of 6%, or $87 million, over 2015. The key influences on the result include the following:

- Personnel costs, which increased 2%, or $18 million. An increase in costs due to inflation was offset in part by productivity gains due to a reduction in full-time equivalent employees from simplifying the business.

- Technology costs increased 43%, or $86 million in 2016, reflecting a charge of $110 million associated with changes in the application of the accounting policy for internally generated software assets, which was partially offset by productivity gains.

- Premises costs and other costs decreased 4%, or $17 million.

**Credit impairment charge**

Credit impairment charge totaled $150 million for 2016, an increase of $76 million compared to 2015.

- The individual provision charge was $68 million higher, due to lower write-backs and higher new provisions raised.
- The collective provision was $8 million higher due to a credit cycle release in 2015 not repeated in 2016, partly offset by an allocation from the collective provision to an individual provision in Institutional.

**Summary Balance Sheet**

| NZ$ millions (unless otherwise stated) | 2016[1] US$ millions | As at September 30, 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash | **1,658** | **2,274** | 2,380 |
| Settlement balances receivable | **289** | **396** | 309 |
| Collateral paid | **1,684** | **2,310** | 1,929 |
| Trading securities | **8,733** | **11,979** | 12,139 |
| Investments backing insurance contract liabilities | **87** | **119** | 151 |
| Derivative financial instruments | **15,389** | **21,110** | 17,658 |
| Available-for-sale assets | **2,084** | **2,859** | 1,428 |
| Net loans and advances | **83,560** | **114,623** | 106,357 |
| Other assets | **511** | **701** | 740 |
| Insurance contract assets | **459** | **630** | 552 |
| Investment in associates and jointly controlled entities | **5** | **7** | 4 |
| Premises and equipment | **282** | **387** | 388 |
| Goodwill and other intangibles | **2,496** | **3,424** | 3,492 |
| **Total assets** | **117,237** | **160,819** | 147,527 |
| **Liabilities** | | | |
| Settlement balances payable | **1,291** | **1,771** | 1,844 |
| Collateral received | **386** | **529** | 1,687 |
| Deposits and other borrowings | **72,219** | **99,066** | 90,678 |
| Derivative financial instruments | **16,006** | **21,956** | 17,230 |
| Payables and other liabilities | **816** | **1,119** | 1,487 |
| Current tax liability | **15** | **21** | 87 |
| Deferred tax liabilities | **106** | **145** | 124 |
| Provisions | **150** | **206** | 191 |
| Debt issuances | **14,590** | **20,014** | 19,403 |
| Subordinated debt | **2,393** | **3,282** | 2,343 |
| **Total liabilities** | **107,971** | **148,109** | 135,074 |
| **Total equity** | **9,266** | **12,710** | 12,453 |

(1) For the convenience of the reader, the financial data for the year ended September 30, 2016 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 30, 2016 of NZ$1.00=US$0.7290.

**Other Banking Data**

| | RBNZ Minimum | As at September, 30 2016 | 2015 |
|---|---|---|---|
| Capital adequacy ratios | | | |
| Common Equity Tier 1 capital (%) | **4.5** | **10.0** | 10.5 |
| Tier 1 capital (%) | **6.0** | **13.2** | 12.7 |
| Total capital (%) | **8.0** | **13.7** | 13.6 |
| Risk-weighted exposures (NZ$ millions) [1] | | **87,119** | 80,662 |

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

Total assets increased $13,292 million, from $147,527 million for 2015, to $160,819 million for 2016. Key influences on the movement in assets include:

- Assets held for liquidity purposes comprise cash, settlement balances receivable, trading securities, and available-for-sale assets. These assets in aggregate increased $1,252 million ($17,508 million in 2016, from $16,256 million in 2015). The increase in assets held for liquidity purposes was due to customer deposit growth, funding transactions and the timing of future maturities.

- The balance of derivative financial instruments reflects the revaluation of these instruments to market value. The net balance of asset and liability positions decreased $1,274 million from a net asset of $428 million in 2015, to a net liability of $846 million in 2016. This decrease was mainly driven by mark-to-market losses due to negative revaluations on foreign exchange contracts from strengthening of the NZ dollar. The NZ dollar appreciated 9 cents against the U.S. dollar in the 2016 year.

- Net loans and advances increased $8,266 million, or 8%, over 2016. Gross loans and advances increased $8,253 million, with $7,394 million of this being housing loans. The credit impairment charge increased $11 million to $622 million in 2016, which is netted against gross loans and advances.

Total liabilities increased $13,035 million, from $135,074 million in 2015, to $148,109 million in 2016. Key influences on the movement in liabilities include:

- Total deposits and other borrowings increased 9%, or $8,388 million, in 2016, compared to 2015. Customer deposits increased 8%, or $6,490 million reflecting the focus on deposit gathering to fund growth in lending.

- Debt issuances increased $611 million during 2016. The increase reflects new issuances of $7,380 million, a positive exchange rate impact of $2,292 million, and maturities of $4,477 million.

***Year ended September 2016 compared with year ended September 2015 (results by segment).***

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

- Retail

- Commercial

- Institutional

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

The following table shows the results of our business segments for the years ended September 30, 2016 and 2015:

| | Year ended September 30, | | |
|---|---|---|---|
| NZ$ millions | **2016** | 2015[1] Restated | 2015 |
| Retail | **903** | 835 | 697 |
| Commercial | **413** | 478 | 478 |
| Wealth | **-** | - | 136 |
| Institutional | **201** | 331 | 331 |
| Other | **18** | 139 | 141 |
| **Profit after income tax** | **1,535** | 1,783 | 1,783 |

(1) During the year ended September 30, 2016, segmental reporting was revised to reflect the integration of the Wealth segment into the Retail segment (the Wealth segment was previously reported separately). Comparative data for the year ended September 30, 2015 has been adjusted to be consistent with the 2016 year's segment definitions and the requirements of IFRS, including reclassifying Wealth profit after tax of $136 million from the Wealth segment to the Retail segment.

The following table shows the results of our Retail segment (including the personal and Business Banking businesses, and Wealth) for the years ended September 30, 2016 and 2015 (restated):

**Retail**

| NZ$ millions | Year ended September 30, 2016 | 2015 Restated |
|---|---|---|
| Net interest income | **1,660** | 1,568 |
| Other operating income | **682** | 660 |
| Net operating income | **2,342** | 2,228 |
| Operating expenses | **1,045** | 1,023 |
| Profit before credit impairment and income tax | **1,297** | 1,205 |
| Credit impairment charge | **58** | 56 |
| Profit before income tax | **1,239** | 1,149 |
| Income tax expense | **336** | 314 |
| **Profit after income tax** | **903** | 835 |
| Loans and advances | **66,717** | 59,236 |
| Deposits | **63,110** | 59,113 |

Retail profit after income tax of $903 million for 2016 increased 8% compared to 2015. Net interest income increased 6%, mainly due to lending volume growth. Net interest margin contracted due to competitive pressure on margins and an unfavorable lending mix as customers switched to lower margin fixed rate products.

- Other operating income increased $22 million, with a non-recurring $9 million pre-tax loss arising from the sale of the OnePath medical book (nil impact on a post-tax basis) offset by growth in funds under management.
- Operating expenses were 2% higher, primarily due to a $31 million charge associated with changes in the application of the accounting policy for internally generated software assets.
- The credit impairment charge increased $2 million.
- Loans and advances increased 13% in 2016 compared to 2015, due to strong housing credit growth and a $2 billion reduction in mortgages held in the New Zealand branch. Deposit volumes grew by 7% in 2016 compared to 2015.

**Commercial**

| NZ$ millions | Year ended September 30, 2016 | 2015 |
|---|---|---|
| Net interest income | **888** | 904 |
| Other operating income | **16** | 17 |
| Net operating income | **904** | 921 |
| Operating expenses | **258** | 257 |
| Profit before credit impairment and income tax | **646** | 664 |
| Credit impairment charge | **72** | - |
| Profit before income tax | **574** | 664 |
| Income tax expense | **161** | 186 |
| **Profit after income tax** | **413** | 478 |
| Loans and advances | **40,415** | 39,334 |
| Deposits | **13,251** | 12,282 |

The Commercial segment includes the CommAgri business and UDC.

Commercial profit after income tax of $413 million for 2016 decreased 14% compared with 2015.

- Net interest income decreased 2% in 2016 compared to 2015. This reflected positive impact from lending volume growth, more than offset by net interest margin contraction.
- Operating expenses were $1 million higher in 2016 than the 2015 financial year, primarily due to a $6 million charge associated with changes in the application of the accounting policy for internally generated software assets more than offsetting reductions from productivity initiatives.

- The credit impairment charge increased $72 million in 2016, reflecting higher new provisions in the CommAgri business as a result of weak global commodity dairy prices and lower write-backs.

- Loans and advances increased 3% in 2016, with the main growth occurring in commercial lending. Deposit volumes increased 8% during 2016.

**Institutional**

| NZ$ millions | Year ended September 30, 2016 | 2015 |
|---|---|---|
| Net interest income | **368** | 304 |
| Other operating income | **113** | 360 |
| Net operating income | **481** | 664 |
| Operating expenses | **181** | 189 |
| Profit before credit impairment and income tax | **300** | 475 |
| Credit impairment charge | **20** | 18 |
| Profit before income tax | **280** | 457 |
| Income tax expense | **79** | 126 |
| **Profit after income tax** | **201** | 331 |
| Loans and advances | **7,352** | 7,617 |
| Deposits | **15,010** | 13,486 |

Institutional profit after income tax of $201 million for 2016 year decreased 39% compared with 2015.

- Net operating income decreased 28% or $183 million, mainly due to lower earnings on management of balance sheet risk due to movements in credit spreads and losses on derivative valuation adjustments. Derivative valuation adjustments included funding valuation adjustments and the implementation of an updated valuation methodology which makes greater use of market credit information and more sophisticated exposure modelling and is in line with leading market practice.

- Operating expenses were 4% lower.

- The credit impairment charge increased $2 million compared to 2015 reflecting portfolio growth and a lower credit cycle release.

**Other**

| NZ$ millions | Year ended September 30, 2016 | 2015 Restated |
|---|---|---|
| Profit before tax | **12** | 194 |
| Income tax expense | **(6)** | 55 |
| **Profit after income tax** | **18** | 139 |

Other businesses mainly comprise support and Treasury functions that are centrally managed, with costs substantially charged to the operating business units, including (i) the shareholder functions unit, which holds the ANZ New Zealand Group's equity, including subordinated debt; (ii) certain significant items including the costs of organizational restructuring; and (iii) non-core items, including volatility related to derivatives entered into to manage interest rate and foreign exchange risk that are not designated in accounting hedge relationships but are considered to be economic hedges.

The pre-tax result in 2016 reflected the following:

- Mark-to-market of economic hedges derivatives. Fair value losses of $40 million were recorded in 2016, compared to fair value gains of $66 million in 2015.

- Gains on life insurance contract assets driven by volatility in long term interest rates used to discount future cash flows, resulting in a positive revaluation of net insurance policy assets of $60 million in 2016 compared to a positive revaluation of $46 million in 2015.

- The 2016 year included a $73 million charge associated with changes in the application of the accounting policy for internally generated software assets.

### 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".

| | | | | | | | | | Year ended September 30, |
|---|---|---|---|---|---|---|---|---|---|
| | | | **2017** | | | 2016 | | | 2015 |
| 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 | **10,450** | **351** | **3.36** | 12,378 | 453 | 3.66 | 12,012 | 488 | 4.06 |
| Net loans and advances | **118,249** | **5,675** | **4.80** | 111,434 | 5,813 | 5.22 | 102,026 | 6,277 | 6.15 |
| Other interest earning financial assets | **8,909** | **172** | **1.93** | 7,630 | 157 | 2.06 | 5,607 | 161 | 2.87 |
| **Total interest earning assets** | **137,608** | **6,198** | **4.50** | 131,442 | 6,423 | 4.89 | 119,645 | 6,926 | 5.79 |
| *Non-interest earning assets* | | | | | | | | | |
| Provision for impairment | **(611)** | **-** | **-** | (605) | - | - | (643) | - | - |
| Property, plant and equipment | **380** | **-** | **-** | 394 | - | - | 378 | - | - |
| Other assets | **20,752** | **-** | **-** | 24,950 | - | - | 18,965 | - | - |
| **Total non-interest earning assets** | **20,521** | **-** | **-** | 24,739 | - | - | 18,700 | - | - |
| **Total assets** | **158,129** | **6,198** | **-** | 156,181 | 6,423 | - | 138,345 | 6,926 | - |
| **Liabilities** | | | | | | | | | |
| *Interest bearing liabilities* | | | | | | | | | |
| Commercial paper, deposits and other borrowings | **93,743** | **2,212** | **2.36** | 90,751 | 2,536 | 2.79 | 82,783 | 3,052 | 3.69 |
| Unsubordinated debt | **19,747** | **704** | **3.57** | 17,977 | 681 | 3.79 | 17,937 | 855 | 4.77 |
| Subordinated debt | **3,283** | **220** | **6.70** | 2,632 | 170 | 6.46 | 1,784 | 112 | 6.28 |
| Other interest bearing financial liabilities | **1,372** | **25** | **1.82** | 2,308 | 34 | 1.47 | 1,732 | 32 | 2.00 |
| **Total interest bearing liabilities** | **118,145** | **3,161** | **2.68** | 113,668 | 3,421 | 3.01 | 104,236 | 4,051 | 3.89 |
| *Non-interest bearing liabilities* | | | | | | | | | |
| Other liabilities | **26,987** | **-** | **-** | 29,829 | - | - | 22,103 | - | - |
| **Total non-interest bearing liabilities** | **26,987** | **-** | **-** | 29,829 | - | - | 22,103 | - | - |
| **Total liabilities** | **145,132** | **3,161** | **-** | 143,497 | 3,421 | - | 126,339 | 4,051 | - |
| **Net assets** | **12,997** | **3,037** | **-** | 12,684 | 3,002 | - | 12,006 | 2,875 | - |

**Volume and rate analysis**

The following table attributes variances in our interest income and interest expense to changes in volume and rate for the year ended September 30, 2017, compared with the year ended September 30, 2016, and for the year ended September 30, 2016, compared with the year ended September 30, 2015. 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.

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | **Year ended September 30,** |
| | | | **2017 v. 2016** | | | 2016 v. 2015 |
| | | | **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 | **(71)** | **(31)** | **(102)** | 15 | (50) | (35) |
| Gross loans and advances | **356** | **(494)** | **(138)** | 579 | (1,043) | (464) |
| Other interest earning financial assets | **26** | **(11)** | **15** | 58 | (62) | (4) |
| Change in interest income | **311** | **(536)** | **(225)** | 652 | (1,155) | (503) |
| **Interest bearing liabilities** | | | | | | |
| Commercial paper, deposits and other borrowings | **84** | **(408)** | **(324)** | 294 | (810) | (516) |
| Debt issuances | **67** | **(44)** | **23** | 2 | (176) | (174) |
| Subordinated debt | **42** | **8** | **50** | 53 | 5 | 58 |
| Other interest bearing financial liabilities | **(14)** | **5** | **(9)** | 11 | (9) | 2 |
| Change in interest expense | **179** | **(439)** | **(260)** | 360 | (990) | (630) |
| **Change in net interest income** | **132** | **(97)** | **35** | 292 | (165) | 127 |

**Liquidity and funding**

***General***

We are required to meet RBNZ liquidity requirements as defined in the Conditions of Registration sections 13 and 14. For further discussion of these requirements, see "Regulation and Supervision—Conditions of Registration for ANZ Bank New Zealand Limited". Also, as a material subsidiary of ANZBGL, we are required to meet the Basel III liquidity coverage ratio as specified by APRA. The objective of the liquidity coverage ratio is to ensure that an ADI maintains an adequate level of unencumbered high quality liquid assets that can be readily converted into cash to meet its liquidity needs for a 30 calendar day time period under a severe stress scenario. We strictly observe our prudential obligations in relation to liquidity and funding risk as required by RBNZ's Conditions of Registration and APRA.

Our liquidity policies are designed to ensure that we maintain sufficient cash balances and liquid asset holdings to meet our obligations as they fall due, in both ordinary market conditions and during periods of stress. These obligations include the repayment of deposits on-demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and taxation, the payment of dividends to shareholders, and the ability to fund new and existing loan and contractual commitments.

Our funding policies are designed to achieve diversified sources of funding by product, term, maturity date, investor type, investor location, jurisdiction, currency and concentration, on a cost effective basis.

Liquid assets are defined by the willingness of the RBNZ to accept them as collateral.

Our principal sources of liquidity are:

- the maturity of marketable securities;
- interest and principal repayments received from customer loans;
- customer deposits;
- proceeds from bonds, notes, and subordinated debt issues;

- fee income;
- interest and dividends from investments;
- security repurchase agreements with the RBNZ; and
- related party loans and asset sales, particularly involving the New Zealand branch of ANZBGL.

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

- increasing minimum holdings of liquid assets to improve our ability to manage periods of market illiquidity;
- establishing an "in-house" RMBS structure to generate securities that meet the RBNZ criteria for eligible collateral for repurchase transactions, which significantly increases our funding ability from the RBNZ. As at September 30, 2017, ANZ New Zealand held $13,832 million of bonds which could be used for repurchase transactions with the RBNZ generating $7,297 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, 2017, the New Zealand branch of ANZBGL held $4.3 billion of residential mortgages. To satisfy APRA's prudential requirements, we intend to repurchase these mortgages at approximately $1.6 billion per annum over the transition period ending December 31, 2020. For further discussion, see the section entitled "Regulation and Supervision—Restrictions on ANZBGL's ability to provide financial support—Effect of APRA's Prudential Standards";
- ensuring that the impact of increased funding costs is passed on to our businesses, which is reflected in pricing to customers;
- actively managing our maturity profile in line with our established policies and the RBNZ liquidity policy. For example the Core Funding Ratio (CFR) is derived from customer deposits, as determined by RBNZ, plus term debt with remaining life beyond 1 year divided by Total Loans and Advances. The RBNZ CFR minimum requirement is 75%; and
- increasing the covered bond program issuance limit to €8 billion from €5 billion in June 2016. The assets of the ANZNZ Covered Bond Trust, are made up of certain housing loans and related securities originated by ANZ Bank New Zealand Limited and which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the ANZNZ Covered Bond Trust of issuances of covered bonds by ANZ New Zealand or ANZNIL from time to time. Currently, ANZNIL has on issue covered bonds with a face value of €3,000 million and CHF300 million. As at September 30, 2017, the ANZNZ Covered Bond Trust Limited held $10.6 billion of loans.

The following table sets forth an analysis of our contractual cash obligations in respect to subordinated and unsubordinated debt issuances as at September 30, 2017. 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, 2017 |
|---|---|---|---|---|
| NZ$ millions | Due within 1 year | Due between 1 and 5 years | Due beyond 5 years | Total |
| Subordinated debt and unsubordinated debt | 4,554 | 16,496 | 5,424 | 26,474 |
| Lease rental commitments | 84 | 256 | 144 | 484 |
| **Total contractual cash obligations** | 4,638 | 16,752 | 5,568 | 26,958 |

Our current borrowing programs as at September 30, 2017, other than borrowings from our parent, ANZBGL, are summarized in the table below. In addition to these programs, from time to time we issue subordinated debt securities in the New Zealand market that are subject to APRA and RBNZ approval.

| **Active borrowing programs** | **Program size (millions)** | **Amount outstanding (millions)** | **Issuing entity** | **Principal market** | **Governing law** |
|---|---|---|---|---|---|
| Euro Commercial Paper Program - short term | US$10,000 | US$47 | ANZNIL[1] | Offshore non-US based | English |
| U.S. Commercial Paper Program - short term | US$10,000 | US$2,641 | ANZNIL[1] | Offshore US-based | New York |
| Domestic Term Note Program | NZ$5,000 | NZ$3,900 | ANZ New Zealand | On shore | New Zealand |
| Euro Medium-Term Note Program | US$10,000 | US$2,291 | ANZ New Zealand and ANZNIL[1] | Offshore non-US based | English |
| U.S. Medium-Term Note Program | US$10,000 | US$6,500 | ANZ New Zealand and ANZNIL[1] | Offshore US-based | New York |
| ANZNZ Covered Bond Program | € 8,000 | € 3,262 | ANZ New Zealand and ANZNIL[1, 2] | Offshore | English |
| Domestic Registered Certificate of Deposits Program | Unlimited | NZ$1,916 | 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 €3,000 million and CHF300 million.

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

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

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

Within our business, liquidity relates to our ability to make interest payments and to repay deposits. Our current policy is to ensure that liquid assets and funding capabilities are sufficient to meet expected cash flows under different scenarios. Our primary source of funding is from deposits, either on-demand or short-term deposits and term deposits. Although substantial portions of retail accounts are contractually repayable within one year, on-demand, or at short notice, customer deposit balances have traditionally provided a stable source of our core long-term funding.

We also access the New Zealand and international debt capital markets under our various funding programs. As at September 30, 2017, we had on issue $24,606 million of term debt securities (bonds, notes and subordinated debt).

The cost and availability of our senior unsecured financing is influenced by credit ratings. As at December 1, 2017, credit ratings and outlook for our short-term and long-term senior unsecured debt were as follows:

| **Credit rating agency** | **Short-term debt** | **Long-term debt** | **Outlook** |
|---|---|---|---|
| S&P | A-1+ | AA- | Negative |
| Moody's | P-1 | A1 | Stable |
| Fitch | F1+ | AA- | Stable |

Credit ratings are neither a rating of securities nor a recommendation to buy, hold or sell securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.

The ability to sell assets quickly is also an important source of our liquidity. We hold sizeable balances of government securities and other debt securities which could be sold or are eligible as collateral for borrowing from the RBNZ to provide additional funding should the need arise.

### Internal RMBS Securitization

The RBNZ includes RMBS that satisfy criteria as acceptable collateral that banks can pledge and borrow against as part of its liquidity management arrangements designed to help ensure adequate liquidity for New Zealand financial institutions in the event of market disruption. ANZ New Zealand has an in-house RMBS facility that issues securities meeting the RBNZ criteria. The facility provides part of our funding capability from the RBNZ. It also resulted in ANZ New Zealand's financial statements recognizing a payable and receivable of equal amount totalling $9,956 million as at September 30, 2017, 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, 2017, the New Zealand branch of ANZBGL held $4.3 billion of residential mortgage assets purchased from ANZ New Zealand. These assets qualify for derecognition as ANZ New Zealand does not retain a continuing involvement in the transferred assets.

### Off-Balance Sheet Financial Instruments

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

We also seek to earn interest margins through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet loans and advances; we also enter into guarantees and other commitments such as letters of credit and performance, and other, bonds.

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

### Derivatives

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

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

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

| NZ$ millions | 2017 Face or Contract Value | 2017 Fair Value Gain | 2017 Fair Value Loss | 2016 Face or Contract Value | 2016 Fair Value Gain | 2016 Fair Value Loss | 2015 Face or Contract Value | 2015 Fair Value Gain | 2015 Fair Value Loss |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | As at September 30, |
| **Derivatives held for trading** | | | | | | | | | |
| *Foreign exchange derivatives* | | | | | | | | | |
| Spot and forward contracts | **105,717** | **615** | **696** | 63,895 | 650 | 785 | 76,319 | 1,625 | 1,339 |
| Swap agreements | **164,131** | **1,773** | **1,895** | 141,306 | 1,718 | 3,157 | 123,744 | 2,886 | 3,559 |
| Options purchased | **1,301** | **17** | | 2,379 | 50 | 2 | 1,870 | 79 | 3 |
| Options sold | **1,268** | **2** | **27** | 2,248 | 7 | 77 | 1,820 | 2 | 46 |
| *Commodity derivatives* | **320** | **13** | **14** | 460 | 33 | 30 | 235 | 29 | 29 |
| *Interest rate derivatives* | | | | | | | | | |
| Forward rate agreements | **33,945** | | | 41,507 | 1 | 5 | 24,743 | 2 | 12 |
| Swap agreements | **1,049,894** | **7,062** | **6,335** | 1,178,795 | 17,910 | 17,087 | 1,140,894 | 12,421 | 11,479 |
| Futures contracts | **80,583** | **5** | **24** | 78,988 | 3 | 45 | 45,407 | 12 | 19 |
| Options purchased | **1,928** | **3** | | 2,366 | 6 | - | 1,218 | 5 | - |
| Options sold | **1,239** | | **1** | 1,603 | 1 | 2 | 827 | 1 | 2 |
| **Total derivatives held for trading** | **1,440,326** | **9,490** | **8,992** | 1,513,547 | 20,379 | 21,190 | 1,417,077 | 17,062 | 16,488 |
| **Derivatives in hedging relationships** | | | | | | | | | |
| **(a) Designated as cash flow hedges** | | | | | | | | | |
| Interest rate swap agreements | **22,955** | **302** | **216** | 18,985 | 493 | 381 | 21,715 | 366 | 367 |
| **(b) Designated as fair value hedges** | | | | | | | | | |
| Interest rate swap agreements | **42,038** | **86** | **618** | 34,639 | 238 | 386 | 30,230 | 230 | 375 |
| **Total derivatives held for hedging** | **64,993** | **388** | **834** | 53,624 | 731 | 766 | 51,945 | 596 | 742 |
| **Total derivatives** | **1,505,319** | **9,878** | **9,826** | 1,567,171 | 21,110 | 21,956 | 1,469,022 | 17,658 | 17,230 |

Collateral of $613 million was received as at September 30, 2017, in relation to derivative financial instruments (September 30, 2016: $529 million; September 30, 2015: $1,687 million).

Collateral of $1,415 million was paid as at September 30, 2017, in relation to derivative financial instruments (September 30, 2016: $2,310 million; September 30, 2015: $1,929 million).

**Contingent Liabilities and Credit Related Commitments**

We guarantee the performance of customers by issuing standby letters of credit and guarantees to third parties, including ANZBGL. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers, therefore these transactions are subjected to the same credit origination, portfolio management and collateral requirements as for customers applying for loans. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

The gross value of the instruments and facilities reflects the level of our activity in the various products and not the much smaller net risk exposure. As we do not believe that any irrecoverable liability will arise from the settlement of these types of transactions, they are not recorded as on-balance sheet financial instruments.

We do not disclose fair value information in respect of off-balance sheet financial instruments, other than derivatives, as we do not believe the estimated fair value is material. Under NZ IFRS, the fair value of derivatives is already reflected in the financial statements.

The face or contract values and credit equivalent amount for our off-balance sheet financial instruments are as follows:

| | | | As at September 30, |
|---|---|---|---|
| NZ$ millions | **2017** | 2016 | 2015 |
| Contract amount of: | | | |
| **Credit related commitments - facilities provided** | | | |
| Undrawn facilities | **26,769** | 27,296 | 26,903 |
| **Guarantees and contingent liabilities** | | | |
| Guarantees and letters of credit | **1,010** | 850 | 1,002 |
| Performance related contingencies | **1,598** | 1,611 | 1,452 |
| **Contracts for outstanding capital expenditure** | | | |
| Commitments with certain drawdown due within one year | **4** | 5 | 12 |

### *Other Contingent Liabilities*

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

### *Other Court Proceedings*

There are other outstanding court proceedings, claims and possible claims against us, the aggregate amount of which cannot readily be quantified or which is not considered material. Legal advice has been obtained and, in the light of such advice, provisions as deemed necessary have been made and are disclosed in our consolidated financial statements.

## Capital Adequacy

ANZ New Zealand's Conditions of Registration, set by the RBNZ, specify the minimum capital requirements with which ANZ New Zealand must comply. The Conditions of Registration require capital adequacy ratios for ANZ New Zealand to be calculated in accordance with the RBNZ document entitled "*Capital Adequacy Framework (Internal Models Based Approach)*" (BS2B).

From January 1, 2013, ANZ New Zealand is required to comply with the RBNZ's Basel III capital adequacy requirements.

The following table provides details of our Common Equity Tier 1, Tier 1 and Tier 2 capital position as at September 30, 2017, and September 30, 2016. The capital ratios are calculated using an internal models based approach and in accordance with RBNZ's Basel III capital standards.

| NZ$ millions, unless otherwise stated | RBNZ | As at September 30, | |
|---|---|---|---|
| | Minimum | 2017 | 2016 |
| Common equity tier 1 capital (%) | 4.5 | 10.7 | 10.0 |
| Tier 1 capital (%) | 6.0 | 14.1 | 13.2 |
| Total capital (%) | 8.0 | 14.4 | 13.7 |
| Buffer ratio (%) | 2.5 | 6.2 | 5.5 |
| **Capital of ANZ New Zealand** | | | |
| **Tier 1 capital** | | | |
| *Common equity tier 1 capital* | | | |
| Paid up ordinary shares issued by ANZ New Zealand | | 8,588 | 8,588 |
| Retained earnings (net of appropriations) | | 3,845 | 3,760 |
| Accumulated other comprehensive income and other disclosed reserves | | 48 | 62 |
| *Less deductions from common equity tier 1 capital* | | | |
| Goodwill and intangible assets, net of associated deferred tax liabilities | | (3,399) | (3,412) |
| Cash flow hedge reserve | | (43) | (62) |
| Expected losses to extent greater than total eligible allowances for impairment | | (312) | (211) |
| Common equity tier 1 capital | | **8,727** | **8,725** |
| *Additional tier 1 capital* | | | |
| Preference shares | | 300 | 300 |
| ANZ Capital Notes | | 2,441 | 2,441 |
| Capital attributable to Bonus Bonds Scheme investors | | 37 | 39 |
| Additional tier 1 capital | | 2,778 | 2,780 |
| **Total tier 1 capital** | | **11,505** | **11,505** |
| **Tier 2 capital** | | | |
| *Qualifying amounts of tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements* | | | |
| NZD 835,000,000 perpetual subordinated bond | | 835 | 835 |
| *Less deductions for tier 2 capital* | | | |
| Basel III transition adjustment | | (601) | (367) |
| **Total tier 2 capital** | | **234** | **468** |
| **Total capital** | | **11,739** | **11,973** |

**Capital Adequacy in New Zealand**

The bank prudential supervisor in New Zealand is the RBNZ. It imposes capital adequacy requirements on banks, the objective of which is to ensure that an adequate level of capital is maintained, thereby providing a buffer to absorb unanticipated losses from activities. The RBNZ's approach to assessing capital adequacy focuses on credit risk associated with the bank's exposures, market and operational risks and the quality and quantity of a bank's capital.

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

The RBNZ has implemented the Basel III capital adequacy requirements, as modified to reflect New Zealand conditions, on January 1, 2013. From January 1, 2014, the RBNZ has also required most New Zealand incorporated banks, including ANZ New Zealand, to maintain a conservation buffer of 2.5% above the minimum ratios or face restrictions on distributions. The RBNZ also has the discretion (effective from January 1, 2014) 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.

From January 1, 2013, the RBNZ defines total regulatory capital as the sum of Tier 1 capital and Tier 2 capital. Tier 1 capital comprises Common Equity Tier 1 capital and Additional Tier 1 capital. Each category of capital is calculated net of the associated regulatory adjustments prescribed by the RBNZ.

Prior to January 1, 2013, the RBNZ defined total regulatory capital as Tier 1 capital plus Tier 2 capital less deductions from total capital. Tier 2 capital consisted of subordinated loan capital less any prescribed deductions.

### 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 ANZ New Zealand Board of Directors holds ultimate responsibility for ensuring that capital adequacy is maintained. This includes setting, monitoring and obtaining assurance for ANZ New Zealand's ICAAP policy and framework, standardized risk definitions for all material risks, materiality thresholds, capital adequacy targets, internal economic risk capital principles and risk appetite.

ANZ New Zealand has minimum and trigger levels for Common Equity Tier 1, Tier 1 and total capital to ensure sufficient capital is maintained to:

- meet minimum prudential requirements as defined in ANZ New Zealand's Conditions of Registration;
- ensure consistency with ANZ New Zealand's overall risk profile and financial positions, taking into account its strategic focus and business plan; and
- support the economic risk capital requirements of the business.

ANZ New Zealand's Asset & Liability Committee ("**ALCO**") and its related Capital Management Forum are responsible for developing, implementing and maintaining ANZ New Zealand's ICAAP framework including on-going monitoring, reporting and compliance.

ANZ New Zealand's ICAAP is subject to periodic review conducted by internal audit.

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

### ANZ New Zealand's Capitalization

ANZ New Zealand's Common Equity Tier 1 capital adequacy ratio was 10.7% as at September 30, 2017, an increase from 10.0% as at September 30, 2016. The Tier 1 capital adequacy ratio was 14.1% as at September 30, 2017, an increase from 13.2% as at September 30, 2016. The total capital adequacy ratio was 14.4% as at September 30, 2017, an increase from 13.7% as at September 30, 2016.

### Risk Weighted Exposures

#### *Credit Risk*

Under the Internal Ratings Based Approach ("**IRB**"), banks use their own internal risk measures, subject to certain RBNZ impositions, for calculating the level of credit risk associated with customers and exposures, by way of the primary components of:

Probability of Default ("**PD**") – an estimate of the level of risk of borrower default graded by way of rating models used both at loan origination and for ongoing monitoring;

Exposure at Default ("**EAD**") – the expected facility exposure at default; and

Loss Given Default ("**LGD**") – an estimate of the potential economic loss on a credit exposure, incurred as a result of obligor default and expressed as a percentage of the facility's EAD. For retail mortgage exposures, New Zealand banks apply downturn LGDs according to Loan to Value ("**LVR**") prescribed bands as set out in

BS2B. For Farm Lending, ANZ New Zealand has adopted RBNZ prescribed LVR based downturn LGDs along with a minimum maturity of 2.5 years and the removal of the firm size adjustment.

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

Under the IRB approach credit exposures (both on and off-balance sheet) are allocated to an asset class (sovereign, bank, corporate, retail mortgage and other retail) depending on borrower type. In addition equity exposures and other assets such as premises and equipment, cash and claims on the RBNZ are separately identified and risk weighted according to the requirements of BS2B.

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

***Operational Risk***

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

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

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

***Market Risk***

Banks are required to hold capital against interest rate, foreign currency and equity risks (together, "**market risk**"). ANZ New Zealand uses a standardized methodology for the calculation of market risk as prescribed by the RBNZ's BS2A/BS2B Capital Adequacy Framework.

**Internal capital measurement**

In accordance with its Conditions of Registration, ANZ New Zealand is also required to maintain an internal economic capital allocation for other material risks not covered by regulatory capital requirements. The measurement and management of any other material risks is covered in ANZ New Zealand's Economic Capital model, which is used within its ICAAP. Economic capital is assessed as the unexpected loss measured to a 99.97% confidence level. The internal capital allocation for ANZ New Zealand's other material risks as at September 30, 2017, was $421 million ($441 million as at September 30, 2016), including pension risk, insurance risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk, value in-force risk, business retention risk and software risk.

***Regulatory Capital***

Following the implementation of Basel III by the RBNZ on January 1, 2013, regulatory capital comprises Common Equity Tier 1 capital, Additional Tier 1 capital (together, "**Tier 1 capital**") and Tier 2 capital. Each category of capital is calculated net of associated regulatory adjustments. The resultant amount of capital forms the total capital base.

Common Equity Tier 1 capital includes eligible paid-up ordinary shares, share premium, retained earnings (net of appropriations), accumulated other comprehensive income and other reserves (other than asset revaluation reserves), and minority interests less various prescribed regulatory deduction adjustments including goodwill.

Additional Tier 1 capital includes eligible perpetual shares or debt and Tier 2 capital includes eligible subordinated long-term debt. Both Additional Tier 1 capital and Tier 2 capital instruments must include non-viability trigger events. Additional Tier 1 Capital instruments classified as a liability under NZ GAAP must also include loss absorption requirements for a Common Equity Tier 1 trigger event. Additional Tier 1 capital and Tier 2 capital may also include certain Basel III non-compliant instruments issued before September 12, 2010, under the RBNZ's Basel III transitional arrangements, subject to a reducing cap from January 1, 2014, to January 1, 2018.

From January 1, 2013, New Zealand banks are required to maintain a minimum ratio of total capital to total risk weighted exposures of 8%, of which a minimum of 6% must be held in Tier 1 capital and 4.5% must be held in Common Equity Tier 1 capital. The numerator of the ratio is the capital base. The denominator of the ratio is total risk weighted exposures.

From January 1, 2014, 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 announced that it is undertaking a comprehensive review of the capital adequacy framework applying to incorporated registered banks in New Zealand over 2017/2018. The aim of the review is to identify the most appropriate framework for setting capital requirements for New Zealand banks, taking into account how the current framework has operated and international developments in bank capital requirements. The RBNZ has published an Issues Paper which seeks feedback from stakeholders around the proposed scope of the review. Detailed consultation documents on policy proposals will be released later in 2017, with a view to concluding the review by the first quarter of 2018. For further details, see "Regulation and Supervision—RBNZ review of capital requirements".

***Risk Weighted Assets***

**Total required capital as at September 30, 2017 (Basel III)**

| NZ $ millions | Exposure at default | Risk weighted exposure or implied risk weighted exposure[1] | Total capital requirement |
|---|---|---|---|
| Exposures subject to internal ratings based approach | 160,456 | 57,268 | 4,581 |
| Specialized lending exposures subject to slotting approach | 11,631 | 10,472 | 838 |
| Exposures subject to standardized approach | 1,915 | 479 | 38 |
| Equity exposures | 8 | 32 | 3 |
| Other exposures | 3,553 | 1,674 | 134 |
| Agri business supervisory adjustment | n/a | 1,363 | 109 |
| **Total credit risk** | 177,563 | 71,288 | 5,703 |
| Operational risk | n/a | 5,805 | 464 |
| Market risk | n/a | 4,549 | 364 |
| **Total capital requirement** | 177,563 | 81,642 | 6,531 |

(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, | | |
|---|---|---|---|
| (%) | **2017 Basel III** | 2016 Basel III | 2015 Basel III |
| Common equity tier 1 capital | **10.7** | 10.0 | 10.5 |
| Tier 1 Capital | **14.1** | 13.2 | 12.7 |
| Tier 2 Capital | **0.3** | 0.5 | 0.9 |
| **Total Capital**[1] | **14.4** | 13.7 | 13.6 |

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

**Risk management policies**

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

We approach risk through managing the various elements of the system as a whole rather than viewing them as independent and unrelated parts. The risk management function is independent of the business with clear delegations from the Board and operates within a comprehensive framework comprising:

- the Board, providing leadership, setting risk appetite/strategy and monitoring progress;
- a strong framework for development and maintenance of ANZ New Zealand's risk management policies, procedures and systems, overseen by an independent team of risk professionals;
- the use of risk tools, applications and processes to execute the global risk management strategy across ANZ New Zealand;
- business unit level accountability, as the "first line of defense", and for the management of risks in alignment with our strategy; and
- independent oversight to ensure business unit level compliance with policies, regulations and laws, and to provide regular risk evaluation and reporting.

We manage risk through an approval, delegation and limits structure. Regular reviews of the policies, systems and risk reports, including the effectiveness of the risk management systems, discussions covering our response to emerging risk issues and trends, and that the requisite culture and practices are in place across ANZ New Zealand, are conducted within ANZ New Zealand and also by ANZBGL. The Board has responsibility for reviewing all aspects of risk management.

The Board has ultimate responsibility for overseeing the effective deployment of risk management frameworks, policies and processes within New Zealand. Our Risk Committee, which is a committee of the Board, assists with this function. The role of the Committee is to assist the Board in the effective discharge of its responsibilities for business, market, credit, capital, financial, operational, compliance, liquidity and funding, insurance and reputational risk management, and to liaise and consult with the ANZBGL Risk Committee as required. We have an independent risk management function, which, via the Chief Risk Officer, coordinates risk management directly between Business Unit risk functions and ANZBGL Risk Management functions.

The risk management process is subject to oversight by the Risk Committee of the ANZBGL Board. This includes the review of risk portfolios and the establishment of prudential policies and controls.

Our risk management policies are essentially the same as ANZBGL's but are tailored where required to suit the local New Zealand regulatory and business environment.

The Audit Committee, which is a committee of the Board, has responsibility for reviewing all aspects of published financial statements and internal and external audit processes. It meets at least four times a year, and reports directly to the Board.

**Credit Risk**

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

This framework is top down, being defined firstly by our Vision and Values and secondly, by Credit Principles and Policies. We also maintain a Bank-wide risk appetite framework and business writing strategies for each of our major business units which give practical effect to the credit and risk appetite frameworks. These strategy papers are reviewed by the appropriate management committees and the Board. The effectiveness of the credit risk management framework is validated through compliance and monitoring processes. These, together with portfolio selection, define and guide the credit process, organization and staff.

Risk Management's responsibilities for credit risk policy and management are executed through dedicated departments, which support our business units. All major business unit credit decisions require approval from both business writers and independent risk personnel.

Credit risk includes concentrations of credit risk, intra day credit risk, credit risk to Bank counterparties and related party credit risk, and is the potential loss arising from the non-performance by the counterparty to an instrument or facility. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual agreements, and encompasses both on and off-balance sheet instruments. Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent on the level of risk. Credit risk policy and management is executed through the Chief Risk Officer who has various dedicated areas within the Risk Management division. Wholesale Risk services ANZ New Zealand's commercial, investment banking and rural lending activities through dedicated teams. Retail Risk services ANZ New Zealand's small business and consumer customers. The Portfolio Reporting team within Risk Management provides an independent overview of credit risk across ANZ New Zealand at a portfolio level. We allow discretion for transaction approvals at the business unit level in both the retail and wholesale lending sectors, with larger transactions approved by Retail Risk and Wholesale Risk.

**Market Risk**

We have a market risk management and control framework, to support trading and balance sheet management activities. The framework incorporates a risk measurement approach to quantify the magnitude of market risk within the trading and balance sheet portfolios. This approach and related analysis identify the range of possible outcomes that can be expected over a given period of time, and establish the relative likelihood of those outcomes and allocate an appropriate amount of capital to support these activities.

**Traded market risk** is the risk of loss from changes in value of financial instruments due to movements in price factors for both physical and derivative trading positions. These risks are monitored daily against a comprehensive limit framework that includes Value at Risk ("**VaR**"), aggregate market position and sensitivity, product and geographic thresholds. The principal risk components of this monitoring process are:

- currency risk is the potential loss arising from the decline in the value of a financial instrument, due to changes in foreign exchange rates or their implied volatilities;
- interest rate risk is the potential loss arising from the change in the value of a financial instrument, due to changes in market interest rates or their implied volatilities; and
- credit Spread risk is the potential loss arising from a decline in value of an instrument due to a movement of its margin or spread relative to a benchmark.

***VaR Methodology:*** All the above risks are measured using a VaR methodology. The VaR methodology is a statistical estimate of the likely daily loss and is based on historical market movements. The confidence level is such that there is a 99% probability that the loss will not exceed the VaR estimate on any given day. Conversely, there is a 1% probability of the decrease in market value exceeding the VaR estimate on any given day. We have adopted the historical simulation methodology as the standard for the calculation of VaR. This methodology is based on assessing the change in value of portfolios each day against historical prices.

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

The Traded Market risk function provides specific oversight of each of the main trading areas and is responsible for the establishment of a VaR framework and detailed control limits. In all trading areas we have implemented models that calculate VaR exposures, monitor risk exposures against defined limits on a daily basis, and "stress test" trading portfolios. The ALCO, comprising executive management, provides monthly oversight of Market Risk.

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

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

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

- currency risk relates to the potential loss arising from the decline in the value of foreign currency positions due to changes in foreign exchange rates. For non-traded instruments in foreign currencies, the risk is monitored and is hedged in accordance with policy. Risk arising from individual funding and other transactions is actively managed. The total amounts of unmatched foreign currency assets and liabilities and consequent foreign currency exposures, arising from each class of financial asset and liability, whether recognized or unrecognized, within each currency are not material;

- liquidity risk is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period. We maintain sufficient liquid funds to meet commitments based on historical and forecasted cash flow requirements. Liquidity risk is measured through cash flow modelling, with profiles produced for both normal business and short-term crisis conditions. The RBNZ introduced a Liquidity Policy (BS13 and BS13A) covering the management of liquidity risk by registered banks in New Zealand which took effect from March 30, 2010. A description of these requirements is covered under "Regulation and Supervision—Conditions of Registration for ANZ Bank New Zealand Limited";

- equity risk is the potential loss arising from the decline in the value of equity instruments held by us due to changes in their equity market prices or implied volatilities;

- prepayment risk is the potential risk to earnings or market value from when a customer prepays all or part of a fixed rate mortgage and where any customer fee charged is not sufficient to offset the loss in value to ANZ New Zealand of this financial asset due to movements in interest rates and other pricing factors. As far as possible the true economic cost is passed through to customers in line with their terms and conditions and relevant legislation; and

- basis risk is the potential risk to earnings or market value from differences between customer pricing and wholesale market pricing. This is managed through active review of product margins.

**Operational Risk**

Operational risk is the risk arising from day-to-day operational activities which may result in direct or indirect loss. These losses may result from failure to comply with policies, procedures, laws and regulations, from fraud or forgery, from a breakdown in the availability or integrity of services, systems and information, or damage to the Bank's reputation.

Examples include failure to comply with policy and legislation, human error, natural disasters, fraud and other malicious acts. Where appropriate, risks are mitigated by insurance.

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: Risk that fraudulent acts are planned, initiated or executed by employees (permanent, temporary or contractors) from inside the Bank;
- external fraud: Fraudulent acts or attempts which originate from outside the Bank, including valueless cheques, counterfeit credit cards and loan applications in false names;
- employment practices & workplace safety: Risk to our employees' health and safety;
- clients, products & business practices, including risk of market manipulation, product defects, money laundering and misuse of customer information;
- business disruption (including systems failures): Risk that our banking operating systems are disrupted or fail. At ANZ, technology risks are key Operational Risks which fall under this category;
- damage to physical assets: Risk that a natural disaster (including earthquakes), terrorist or vandalism attack damages our buildings or property; and
- execution, delivery & process management: Risk that we experience losses as a result of data entry errors, accounting errors or failed mandatory reporting.

Risk Management is responsible for establishing our operational risk framework and associated ANZ Group wide policies. Business units are responsible for the identification, analysis, assessment and treatment of operational risks on a day-to-day basis.

Business units have primary responsibility for the identification and management of operational risk with executive oversight provided by the relevant Retail and Wholesale Risk Forums. ANZ New Zealand's Operational Risk Executive Committee ("**OREC**") undertakes the governance function through the regular monitoring of operational risk performance across ANZ New Zealand. The Board and Risk Management conduct effective oversight through the approval of operational risk policies and frameworks and monitoring key operational risk metrics.

**Compliance**

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

Risk Management, in conjunction with business unit staff, ensures we operate within a compliance infrastructure and framework that incorporates new and changing business obligations and processes.

The compliance policies and their supporting framework seek to minimize material risks to our reputation and value that could arise from non-compliance with laws, regulations, industry codes and internal standards and policies. Business units have primary responsibility for the identification and management of compliance. Our Risk Management division provides policy and framework, monitoring and reporting, as well as leadership in areas such as anti-money laundering procedures and matters of prudential compliance. OREC, the Chief Risk Officer, the ANZ New Zealand Board and the Risk Committee of the ANZBGL Board conduct Board and Executive oversight.

**Internal Audit**

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

Internal Audit reports directly to the Chair of the ANZ New Zealand Audit Committee and through to the Group General Manager Internal Audit ANZBGL. Under its Charter, Internal Audit conducts independent appraisals of the internal controls established by ANZ New Zealand's first (business) and second (ANZ Group's risk and finance functions) lines of defense. This shall include:

- managing and monitoring all major and extreme residual risks to ANZ New Zealand;
- enabling compliance with Board policies and management directives;

- assessing the adequacy of ANZ New Zealand’s compliance with the requirements of supervisory regulatory authorities;

- representation in tripartite meetings with regulators, ANZ Group management and the external auditors;

- supporting the economic and efficient management of resources; and

- enhancing the effectiveness of operations undertaken by ANZ New Zealand.

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

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

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

## Additional Financial and Statistical Information

Set out below is additional financial and statistical information for our business for the periods indicated. For additional information concerning our financial results for the year ended September 30, 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 our business as at the dates indicated:

| | | **As at September 30,** | |
|---|---|---|---|
| NZ$ millions | **2017** | 2016 | 2015 |
| **Assets** | | | |
| Cash | **2,338** | 2,274 | 2,380 |
| Settlement balances receivable | **536** | 396 | 309 |
| Collateral paid | **1,415** | 2,310 | 1,929 |
| Trading securities | **7,663** | 11,979 | 12,139 |
| Investments backing insurance contract liabilities | **123** | 119 | 151 |
| Derivative financial instruments | **9,878** | 21,110 | 17,658 |
| Available-for-sale assets | **6,360** | 2,859 | 1,428 |
| Net loans and advances | **117,627** | 114,623 | 106,357 |
| UDC assets held for sale | **3,065** | - | - |
| Other assets | **683** | 701 | 740 |
| Life insurance contract assets | **636** | 630 | 552 |
| Investments in associates | **7** | 7 | 4 |
| Premises and equipment | **367** | 387 | 388 |
| Goodwill and other intangibles | **3,275** | 3,424 | 3,492 |
| **Total assets** | **153,973** | 160,819 | 147,527 |
| **Liabilities** | | | |
| Settlement balances payable | **1,840** | 1,771 | 1,844 |
| Collateral received | **613** | 529 | 1,687 |
| Deposits and other borrowings | **101,657** | 99,066 | 90,678 |
| Derivative financial instruments | **9,826** | 21,956 | 17,230 |
| Current tax liabilities | **39** | 21 | 87 |
| Deferred tax liabilities | **187** | 145 | 124 |
| UDC liabilities held for sale | **1,088** | - | - |
| Payables and other liabilities | **1,151** | 1,119 | 1,487 |
| Employee entitlements and other provisions | **185** | 206 | 191 |
| Unsubordinated debt | **21,323** | 20,014 | 19,403 |
| Subordinated debt | **3,283** | 3,282 | 2,343 |
| **Total liabilities** | **141,192** | 148,109 | 135,074 |
| **Net assets** | **12,781** | 12,710 | 12,453 |

**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 has changed from prior financial years to align this disclosure with the classifications in the new data series "S34 – Banks: Assets – Loans by industry" published by the RBNZ. This series uses ANZSIC 2006 industry classifications rather than ANZSIC 1996 that were previously used.

| | | | | | | As at September 30, 2017 |
|---|---|---|---|---|---|---|
| NZ$ millions | Total lending | Impaired assets | Specific provision | Write-offs | Recoveries | Net write-off |
| Agriculture | **17,686** | 114 | 31 | 5 | - | 5 |
| Forestry and fishing, agriculture services | **1,277** | 3 | 3 | 2 | - | 2 |
| Manufacturing | **2,729** | 74 | 37 | 14 | 1 | 13 |
| Electricity, gas, water and waste services | **1,602** | - | - | - | - | - |
| Construction | **1,635** | 4 | 3 | 2 | - | 2 |
| Wholesale trade | **1,630** | 22 | 11 | 3 | - | 3 |
| Retail trade and accommodation | **3,058** | 44 | 18 | 13 | - | 13 |
| Transport, postal and warehousing | **1,440** | 2 | 1 | 3 | - | 3 |
| Finance and insurance services | **1,026** | - | - | - | - | - |
| Public administration and safety | **412** | - | - | - | - | - |
| Rental, hiring & real estate services | **30,697** | 11 | 7 | 1 | - | 1 |
| Professional, scientific, technical, administrative and support services | **1,267** | 4 | 1 | 2 | - | 2 |
| Households | **53,008** | 34 | 11 | 73 | 21 | 52 |
| Other | **3,539** | 45 | 29 | 15 | 9 | 6 |
| **Total lending** | **121,006** | 357 | 152 | 133 | 31 | 102 |

#### Mortgagee Sales

Under New Zealand property law, holders of registered mortgages are able to exercise their right of power of sale when the customer has breached the terms of their loan or mortgage. Before any mortgagee sale can be initiated, a notice under the Property Law Act 2007 ("**PLA Notice**") must be issued. The PLA Notice is the formal legal notice of default and advises the customer that unless ANZ New Zealand is repaid in full by a set date then ANZ New Zealand may exercise its right of power of sale.

The table below shows the actual PLA Notices issued and mortgagee sales concluded from January 2013 to September 2017.

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

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

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

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

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

**Interest rate exposures**

The interest rate sensitivity analysis of on-balance sheet financial assets and liabilities has been prepared on the basis of contractual maturity or next re-pricing date, whichever is the earlier, except where the contractual terms are not considered to be reflective of interest rate sensitivity, for example, those assets and liabilities priced at the ANZ New Zealand Group's discretion. In such cases, the rate sensitivity is based upon historically observed and/or anticipated rate sensitivity.

Interest rate exposure is monitored by an independent function to ensure that aggregate risk is managed within Board determined policy. The policy ensures that we are not exposed to unpalatable variations in economic value and net interest income due to interest rates. Simulation modelling and net gap analysis are undertaken, taking into account the projected change in asset and liability levels and mix. The aggregate interest rate exposure of the balance sheet, including net interest income at risk over the next two years, and the present value sensitivity of the net gap, are reviewed on a monthly basis, under various interest rate scenarios.

Our repricing "gap position" as at September 30, 2017, is shown in the following table:

| | | | | | | | As at September 30, 2017 |
|---|---|---|---|---|---|---|---|
| NZ$ millions | **Total** | **less than 3 months** | **3 to 6 months** | **6 to 12 months** | **1 to 2 years** | **Beyond 2 years** | **Non-interest bearing** |
| **Financial Assets** | | | | | | | |
| Cash | 2,338 | 2,140 | - | - | - | - | 198 |
| Settlement balances receivable | 536 | 129 | - | - | - | - | 407 |
| Collateral paid | 1,415 | 1,415 | - | - | - | - | - |
| Trading securities | 7,663 | 496 | 268 | 241 | 2,025 | 4,633 | - |
| Derivative financial instruments | 9,878 | - | - | - | - | - | 9,878 |
| Available-for-sale assets | 6,360 | 713 | 250 | 603 | 1,465 | 3,328 | 1 |
| Net loans and advances | 120,539 | 60,553 | 8,328 | 18,979 | 21,575 | 11,531 | (427) |
| Other financial assets | 744 | 77 | 14 | 29 | 3 | - | 621 |
| Total financial assets | 149,473 | 65,523 | 8,860 | 19,852 | 25,068 | 19,492 | 10,678 |
| **Liabilities** | | | | | | | |
| Settlement balances payable | 1,840 | 630 | - | - | - | - | 1,210 |
| Collateral received | 613 | 613 | - | - | - | - | - |
| Deposits and other borrowings | 102,696 | 68,718 | 12,925 | 8,051 | 2,855 | 1,265 | 8,882 |
| Derivative financial instruments | 9,826 | - | - | - | - | - | 9,826 |
| Unsubordinated debt | 21,323 | 3,511 | 1,567 | 125 | 3,420 | 12,700 | - |
| Subordinated debt | 3,283 | 938 | 1,013 | 835 | - | 497 | - |
| Other financial liabilities | 759 | 151 | - | - | - | - | 608 |
| Total financial liabilities | 140,340 | 74,561 | 15,505 | 9,011 | 6,275 | 14,462 | 20,526 |
| **Hedging instruments** | - | 1,974 | (1,395) | 4,425 | (4,008) | (996) | - |
| Interest sensitivity gap | 9,133 | (7,064) | (8,040) | 15,266 | 14,785 | 4,034 | (9,848) |

### General banking statistics

The following table provides ratio information relating to our business:

| | | | | As at September 30, | |
|---|---|---|---|---|---|
| (%, unless otherwise stated) | **2017** | 2016 | 2015 | 2014 | 2013 |
| Cost to income ratio[1] | **36.93** | 41.49 | 37.33 | 38.90 | 44.00 |
| Cost to average total assets ratio[2] | **0.93** | 1.02 | 1.09 | 1.19 | 1.24 |
| Capital adequacy ratio[3] | **14.4** | 13.7 | 13.6 | 12.3 | 12.4 |
| Risk-weighted exposures (NZ$ millions)[4] | **81,642** | 87,119 | 80,662 | 73,427 | 72,193 |
| Return on average risk-weighted exposures[5] | **2.07** | 1.83 | 2.31 | 2.38 | 1.95 |
| Net interest margin[6] | **2.21** | 2.28 | 2.40 | 2.48 | 2.46 |
| Non-interest income as a percentage of assets[7] | **0.59** | 0.55 | 0.85 | 0.87 | 0.68 |
| Non-interest income as a percentage of total income[8] | **23.60** | 22.11 | 29.01 | 28.34 | 23.95 |

(1) Operating expenses divided by operating income.

(2) Operating expenses divided by average total assets as shown in the average balance sheet on page 75.

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

(4) Risk weighted exposures as at September 30, 2017, September 30, 2016, September 30, 2015, September 30, 2014 and September 30, 2013, have been calculated under the Basel III framework. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Internal capital measurement—Regulatory Capital" on page 84 in this Offering Memorandum.

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

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

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

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

### Loans and advances by category

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

| | | | | As at September 30, | |
|---|---|---|---|---|---|
| NZ$ millions | **2017** | 2016 | 2015 | 2014 | 2013[1] |
| Overdrafts | **1,040** | 1,133 | 1,638 | 1,744 | 1,841 |
| Credit card outstandings | **1,638** | 1,663 | 1,688 | 1,580 | 1,458 |
| Term loans - Housing | **72,524** | 67,298 | 59,428 | 52,717 | 49,521 |
| Term loans - Non-housing | **44,227** | 43,651 | 42,880 | 39,622 | 37,673 |
| Lease receivables | **205** | 226 | 236 | 277 | 351 |
| Hire purchase | **1,372** | 1,098 | 946 | 837 | 721 |
| Other | **-** | - | - | 125 | 125 |
| Gross loans and advances | **121,006** | 115,069 | 106,816 | 96,902 | 91,690 |
| Provision for impairment | **(579)** | (622) | (611) | (666) | (826) |
| Unearned finance income | **(222)** | (211) | (214) | (212) | (214) |
| Capitalized brokerage / mortgage origination fees | **334** | 360 | 314 | 208 | 156 |
| Customer liability for acceptances | **-** | 27 | 52 | 67 | 31 |
| **Total net loans and advances** | **120,539** | 114,623 | 106,357 | 96,299 | 90,837 |

(1) For each year beginning from September 30, 2013, in the above table, the classification of the balance sheet has been changed to reflect the nature of the financial assets and liabilities reported. Prior to the reclassification, the balance sheet was classified according to counterparty.

### Performance statistics

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

| | Year ended September 30, | | |
|---|---|---|---|
| NZ$ millions (unless otherwise stated) | **2017** | 2016 | 2015 |
| Average interest earning assets[1] | **137,608** | 131,442 | 119,645 |
| Net interest income | **3,037** | 3,002 | 2,875 |
| Gross earning rate (%)[2] | **4.50** | 4.89 | 5.79 |
| Net interest margin (%)[3] | **2.21** | 2.28 | 2.40 |

(1) Where applicable, references to average balances and ratios calculated using average balances have been referenced to the table "Average balance sheet and interest income/expense" on page 75 of this Offering Memorandum. Unless otherwise stated, the methodology for calculating average balances is included in that table.

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

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

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

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

| | As at September 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| 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 | 35,231 | 35,336 | 34 | 56 | 20,977 | 1,678 |
| Sovereign | 11,309 | 11,030 | 5 | 1 | 99 | 8 |
| Bank | 6,507 | 5,804 | 58 | 19 | 1,177 | 94 |
| Retail mortgages | 70,088 | 70,314 | 19 | 21 | 15,503 | 1,240 |
| Other retail | 5,211 | 5,302 | 74 | 94 | 5,300 | 424 |
| Total on-balance sheet exposures | 128,346 | 127,786 | 26 | 32 | 43,056 | 3,444 |
| **Off-balance sheet exposures** | | | | | | |
| Corporate | 12,471 | 10,025 | 47 | 47 | 4,999 | 400 |
| Sovereign | 128 | 97 | 5 | 1 | 1 | - |
| Bank | 1,410 | 1,146 | 51 | 17 | 205 | 16 |
| Retail mortgages | 8,066 | 8,468 | 16 | 14 | 1,258 | 101 |
| Other retail | 5,591 | 5,609 | 79 | 56 | 3,354 | 268 |
| Total off-balance sheet exposures | 27,666 | 25,345 | 44 | 37 | 9,817 | 785 |
| **Market related contracts** | | | | | | |
| Corporate | 114,726 | 3,171 | 61 | 80 | 2,690 | 215 |
| Sovereign | 17,002 | 82 | 5 | 31 | 27 | 2 |
| Bank | 1,028,806 | 4,072 | 62 | 39 | 1,678 | 135 |
| Total market related contracts | 1,160,534 | 7,325 | 61 | 57 | 4,395 | 352 |
| Total credit risk exposures subject to the internal ratings based approach | 1,316,546 | 160,456 | 30 | 34 | 57,268 | 4,581 |

(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 16% from $426 million at September 30, 2016, to $357 million at September 30, 2017. The decrease was driven by lower levels of new provisions raised in Retail and a combination of asset realizations and write-offs for two large customers in the Institutional business. We continue our strategy of working with customers to return them to a productive status or to achieve maximum recoveries for us and the customer. Given subdued sales volumes across some asset markets, this strategy can involve extended work-outs for some customers but it is achieving adequate levels of assets realized or repaid, or provisions recovered. Bad debts written-off at September 2017 were $133 million.

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

| | | | | As at September 30, | |
|---|---|---|---|---|---|
| NZ$ millions, unless otherwise stated | **2017** | 2016 | 2015 | 2014 | 2013 |
| **Gross balances of impaired assets** | | | | | |
| with individual provisions set aside | **334** | 401 | 368 | 593 | 887 |
| without individual provisions set aside | **23** | 25 | 14 | 41 | 14 |
| Gross impaired assets | **357** | 426 | 382 | 634 | 901 |
| Individual provision for credit impairment | **152** | 151 | 154 | 215 | 284 |
| Net impaired assets | **205** | 275 | 228 | 419 | 617 |
| **Details of size of gross impaired assets** | | | | | |
| Less than one million | **56** | 95 | 137 | 214 | 243 |
| Greater than one million but less than ten million | **131** | 166 | 114 | 195 | 350 |
| Greater than ten million | **170** | 165 | 131 | 225 | 308 |
| Gross impaired assets | **357** | 426 | 382 | 634 | 901 |
| **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 | **182** | 130 | 197 | 150 | 208 |
| **Interest income forgone on impaired assets during the period** | | | | | |
| Net interest charged but not recognized in the income statement | **18** | 23 | 28 | 43 | 66 |
| Net interest charged and recognized in the income statement | **14** | 13 | 18 | 24 | 28 |
| **Analysis of movements in impaired assets** | | | | | |
| Balance at the beginning of the period | **426** | 382 | 634 | 901 | 1,366 |
| Recognition of new impaired assets and increases in previously recognized impaired assets | **571** | 588 | 370 | 615 | 810 |
| Impaired assets written off during the period | **(133)** | (152) | (152) | (176) | (286) |
| Impaired assets which have been realized or restated as performing assets and impaired assets where the value of the security held has been realized | **(507)** | (392) | (470) | (706) | (989) |
| Balance at the end of the period | **357** | 426 | 382 | 634 | 901 |
| Gross impaired assets as a percentage of gross loans and advances (%) | **0.30** | 0.37 | 0.36 | 0.65 | 0.98 |
| Gross impaired assets & 90 days past due assets as a percentage of gross loans and advances (%) | **0.45** | 0.48 | 0.54 | 0.81 | 1.21 |

### Credit impairment charge

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

Reflecting that collateral backing, approximately 62% of ANZ New Zealand's impaired assets are covered by collateral security generally comprising real estate assets. ANZ New Zealand adopts loan recovery processes that aim to maximize the realizable value of this security in order to reduce write-offs and increase the recoveries achievable for ANZ New Zealand and its customers. Individual recovery strategies are reviewed regularly to ensure they remain appropriate for the current and forecast business environment and the respective property markets.

The credit impairment charge decreased $88 million from a charge of $150 million at September 30, 2016, to a charge of $62 million at September 30, 2017. The collective provision charge at September 30, 2017 decreased $58 million from a charge of $14 million at September 30, 2016, to a credit of $44 million at September 30, 2017 driven by specific customer movements in the CommAgri businesses. The individual provision charge at September 30, 2017 decreased $30 million from $136 million at September 30, 2016, to $106 million at September 30, 2017, due to a higher level of write-backs and lower levels of new provisions raised.

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

| | | | | **As at September 30,** | |
|---|---|---|---|---|---|
| NZ$ millions (unless otherwise stated) | **2017** | 2016 | 2015 | 2014 | 2013 |
| **Collective provision** | | | | | |
| Balance at the beginning of the period | **471** | 457 | 451 | 542 | 604 |
| (Credit) / Charge to income statement | **(44)** | 14 | 6 | (91) | (62) |
| Balance at the end of the period | **427** | 471 | 457 | 451 | 542 |
| **Individual provision** | | | | | |
| Balance at the beginning of the period | **151** | 154 | 215 | 284 | 450 |
| Charge to income statement | **106** | 136 | 68 | 75 | 125 |
| Recoveries | **31** | 25 | 29 | 29 | 23 |
| Bad debts written off | **(133)** | (152) | (152) | (176) | (286) |
| Discount unwind | **(3)** | (12) | (6) | 3 | (28) |
| Balance at the end of the period | **152** | 151 | 154 | 215 | 284 |
| The provision for impairment expressed as a percentage of gross impaired assets less interest reserved (%): | | | | | |
| Individual provisions | **42.58** | 35.45 | 40.31 | 33.91 | 31.52 |
| Total provisions | **162.18** | 146.01 | 159.95 | 105.04 | 91.68 |
| Collective provision for impairment expressed as a percentage of credit risk-weighted exposures (%) | **0.60** | 0.65 | 0.66 | 0.72 | 0.87 |

### Loan quality

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

We monitor consumer loan quality by independently verifying arrears and producing and distributing detailed credit performance reports to management. In addition, we closely examine the trends on arrears of various products within the portfolio to ensure measures are taken to correct and control any adverse trends that may be identified. We manage commercial loans through a watch and control list process pursuant to detailed policies and procedures. Secured impaired assets and larger unsecured impaired assets are managed individually and are subject to continuous review of recovery strategy and the adequacy of provisioning levels.

Impaired assets are credit exposures where there is doubt as to whether the full contractual amount (including interest) will be received, and/or where a material credit obligation is 90 days past due but not well secured, or is a portfolio managed facility that can be held for up to 180 days past due, or where concessional terms have been provided due to the financial difficulties of the customer.

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

### *Non-accrual loans*

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

| | | | | As at September 30, | |
|---|---|---|---|---|---|
| NZ$ millions, unless otherwise stated | **2017** | 2016 | 2015 | 2014 | 2013 |
| **Gross balances of impaired assets** | | | | | |
| with individual provisions set aside | **334** | 401 | 368 | 593 | 887 |
| without individual provisions set aside | **23** | 25 | 14 | 41 | 14 |
| Gross impaired assets | **357** | 426 | 382 | 634 | 901 |
| Individual provision for credit impairment | **152** | 151 | 154 | 215 | 284 |
| **Net impaired assets** | **205** | 275 | 228 | 419 | 617 |
| Net impaired assets as a percentage of gross loans and advances (%) | **0.17** | 0.24 | 0.21 | 0.43 | 0.67 |

### *Past due loans*

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

| | | | | As at September 30, | |
|---|---|---|---|---|---|
| NZ$ millions | **2017** | 2016 | 2015 | 2014 | 2013 |
| Gross loans past due not subject to individual provision[1] | **182** | 130 | 197 | 150 | 208 |
| Gross impaired assets | **357** | 426 | 382 | 634 | 901 |
| **Total past due loans** | **539** | 556 | 579 | 784 | 1,109 |

*(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.

### *Provision for credit impairment*

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

| | | | | Year ended September 30, | |
|---|---|---|---|---|---|
| NZ$ millions, unless otherwise stated | **2017** | 2016 | 2015 | 2014 | 2013 |
| **Provision for credit impairment** | | | | | |
| Balance at the beginning of the period | **622** | 611 | 666 | 826 | 1,054 |
| Net increase in provisions (see (i) below) | **62** | 150 | 74 | -16 | 63 |
| Bad debts recovered | **31** | 25 | 29 | 29 | 23 |
| Reversal of individual provisions as a result of bad debt write-offs (see (ii) below) | **(133)** | (152) | (152) | (176) | (286) |
| Discount unwind | **(3)** | (12) | (6) | 3 | (28) |
| **Balance at end of the period** | **579** | 622 | 611 | 666 | 826 |

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

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

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

| | **As at September 30, 2017** | | As at September 30, 2016 | |
|---|---|---|---|---|
| | **NZ$ millions** | **%** | NZ$ millions | % |
| Collective provision | **427** | **74** | 471 | 76 |
| Agriculture | **31** | **4** | 48 | 8 |
| Forestry and fishing, agriculture services | **3** | **1** | 5 | 1 |
| Manufacturing | **37** | **6** | 12 | 2 |
| Electricity, gas, water and waste services | **-** | **-** | - | - |
| Construction | **3** | **1** | 4 | - |
| Wholesale trade | **11** | **2** | 4 | 1 |
| Retail trade and accommodation | **18** | **3** | 30 | 4 |
| Transport, postal and warehousing | **1** | **-** | 4 | 1 |
| Finance and insurance services | **-** | **-** | - | - |
| Public administration and safety | **-** | **-** | 1 | - |
| Rental, hiring & real estate services | **7** | **1** | 15 | 2 |
| Professional, scientific, technical, administrative and support services | **1** | **-** | 1 | - |
| Households | **11** | **2** | 16 | 3 |
| Other | **29** | **6** | 11 | 2 |
| **Total provisions** | **579** | **100** | 622 | 100 |

### Maturity distribution of borrowings

As at September 30, 2017, maturities of our wholesale borrowings 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 | **-** | **497** | **1,941** | **835** | **3,273** |
| A$ Subordinated Notes | **-** | **-** | **-** | **10** | **10** |
| Euro Fixed Rate Notes | **1,224** | **3,836** | **1,632** | **-** | **6,692** |
| A$ Fixed Rate Notes | **-** | **-** | **43** | **-** | **43** |
| NZ$ Fixed Rate Notes | **225** | **2,000** | **150** | **-** | **2,375** |
| NZ$ Floating Rate Notes | **325** | **1,200** | **-** | **-** | **1,525** |
| US$ Fixed Rate Notes | **1,041** | **6,509** | **693** | **-** | **8,243** |
| US$ Floating Rate Notes | **7** | **790** | **28** | **-** | **825** |
| JPY Fixed Rate Notes | **-** | **25** | **-** | **-** | **25** |
| CHF Fixed Rate Notes | **428** | **642** | **606** | **-** | **1,676** |
| US$ Commercial Paper | **3,656** | **-** | **-** | **-** | **3,656** |
| Euro Commercial Paper | **65** | **-** | **-** | **-** | **65** |
| Registered Certificates of Deposit | **1,916** | **-** | **-** | **-** | **1,916** |
| Other wholesale borrowings | **149** | **-** | **-** | **-** | **149** |
| **Gross wholesale borrowings** | **9,036** | **15,499** | **5,093** | **845** | **30,473** |

### ***Average deposits***

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

| NZ$ millions (unless otherwise stated) | **Year ended September 30,** | | | | | |
|---|---|---|---|---|---|---|
| | **2017** | | 2016 | | 2015 | |
| | **Average balance** | **Average rate paid (%)** | Average balance | Average rate paid (%) | Average balance | Average rate paid (%) |
| Term deposits[1] | **45,277** | **3.35** | 39,414 | 3.76 | 36,364 | 4.50 |
| Other deposits and borrowings | **44,141** | **1.30** | 45,072 | 1.83 | 39,889 | 2.85 |
| Commercial paper | **4,325** | **2.82** | 6,265 | 3.61 | 6,530 | 4.29 |
| Total[2] | **93,743** | **2.36** | 90,751 | 2.79 | 82,783 | 3.69 |

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

(2) Where applicable, references to average balances and ratios calculated using average balances have been referenced to the table "Average balance sheet and interest income/expense" on page 75 of this Offering Memorandum. Unless otherwise stated, the methodology for calculating average balances is included in that table.

### **Certificates of deposit and other term deposit maturities**

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

| | **As at September 30, 2017** | | | |
|---|---|---|---|---|
| NZ$ millions | **3 months or less** | **Over 3 months through 12 months** | **Over 12 months** | **Total** |
| Certificates of deposit | 1,846 | 70 | - | **1,916** |
| Other term deposits | 20,944 | 20,539 | 3,974 | **45,457** |
| **Total certificates of deposits and other term deposits** | 22,790 | 20,609 | 3,974 | **47,373** |

**Trading securities**

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

| NZ$ millions | 2017 | 2016 | 2015 |
|---|---|---|---|
| | As at September 30, | | |
| **Trading securities at book value** | | | |
| Government securities | **3,299** | 5,953 | 6,555 |
| Other interest bearing securities | **4,364** | 6,026 | 5,584 |
| **Total trading securities at book value** | **7,663** | 11,979 | 12,139 |

The following table summarizes the market value of our holdings of trading securities as at September 30, 2017 according to their maturity dates:

| NZ$ millions | As at September 30, 2017 |
|---|---|
| Maturing in 1 year or less | **1,245** |
| Maturing between 1 and 5 years | **5,750** |
| Maturing after 5 years | **668** |
| **Total trading securities** | **7,663** |

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

| NZ$ millions (unless otherwise stated) | Maturing in 1 year or less | Maturing between 1 and 5 years | Maturing after 5 years | Total | Average rate (%)[1] |
|---|---|---|---|---|---|
| | As at September 30, 2017 | | | | |
| Securities of local and government owned authorities | **366** | **2,525** | **408** | **3,299** | **2.66%** |
| Other securities | **879** | **3,225** | **260** | **4,364** | **3.52%** |
| **Total trading securities** | **1,245** | **5,750** | **668** | **7,663** | **3.16%** |

(1) Weighted average yield on outstanding trading securities at September 30, 2017 divided by the face value of outstanding trading securities at September 30, 2017.

### Funding

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

| NZ$ millions | **2017** | As at September 30, 2016 | 2015 |
|---|---|---|---|
| **Deposits and short-term borrowings** | | | |
| *Unsecured* | | | |
| Term deposits[1] | **47,373** | 41,902 | 35,727 |
| Other deposits and borrowings[2] | **50,563** | 50,208 | 48,251 |
| U.S. and Euro commercial paper | **3,721** | 5,364 | 4,964 |
| Total unsecured deposits and other borrowings | **101,657** | 97,474 | 88,942 |
| *Secured* | | | |
| Debenture stock | **1,039** | 1,592 | 1,736 |
| Total secured deposits | **1,039** | 1,592 | 1,736 |
| **Debt issuances and long-term borrowings** | | | |
| *Unsecured* | | | |
| Domestic | **7,094** | 7,393 | 5,971 |
| Offshore | **17,512** | 15,903 | 15,775 |
| Total debt issuances and long-term borrowings | **24,606** | 23,296 | 21,746 |
| **Total funding** | **127,302** | 122,362 | 112,424 |
| Represented by: | | | |
| Customer deposits | **96,829** | 91,360 | 84,870 |
| Wholesale | **30,473** | 31,002 | 27,554 |
| **Total funding** | **127,302** | 122,362 | 112,424 |

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

(2) Principally customer deposits.

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

| (%) | **2017** | 2016 | 2015 | Year ended September 30, 2014 | 2013 |
|---|---|---|---|---|---|
| Return on average total assets[2] | **1.12** | 0.98 | 1.29 | 1.38 | 1.13 |
| Equity to assets ratio[3] | **8.22** | 8.12 | 8.68 | 9.53 | 9.23 |

(1) Where applicable, ratios calculated using average balances have been referenced to the table "Average balance sheet and interest income/expense" on page 75 of this Offering Memorandum. Unless otherwise stated, the methodology for calculating average balances is included in that table.

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

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

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

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

| NZ$ millions (unless otherwise stated) | **2017** | As at September 30, 2016 | 2015 |
|---|---|---|---|
| Balance at end of the year (including accrued interest) | **3,721** | 5,364 | 4,964 |
| Maximum amount outstanding at any month end during the year | **7,466** | 7,883 | 7,834 |
| Average amount outstanding during the year | **4,325** | 6,265 | 6,530 |
| Weighted average interest rate during the year (%)[1] | **2.82** | 3.61 | 4.29 |

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

## Australia and New Zealand Banking Group Limited

*The following information regarding our parent, ANZBGL, is presented solely for your reference. ANZBGL is not providing a guarantee or any other type of credit support of the ANZ NZ Notes or the ANZNIL Notes.*

### Overview

ANZBGL and its subsidiaries (together, the "**ANZ Group**"), which began its Australian operations in 1835 and its New Zealand operations in 1840, is one of the four major banking groups headquartered in Australia. ANZBGL is a public company limited by shares incorporated in Australia and was registered in the State of Victoria on July 14, 1977. ANZBGL's registered office is located at Level 9, 833 Collins Street, Docklands, Victoria, 3008, Australia and the telephone number is +61 3 9683 9999. Its Australian Business Number is ABN 11 005 357 522.

The ANZ Group provides a broad range of banking and financial products and services to retail, small business, corporate and institutional customers. Geographically, operations span Australia, New Zealand, a number of countries in the Asia-Pacific region, the United Kingdom, France, Germany and the United States.

As of September 30, 2017, the ANZ Group had total assets of A$897.3 billion and shareholders' equity excluding non-controlling interests of A$59.0 billion. In terms of total assets among banking groups, the Group ranked in the top two in Australia[5] as of September 30, 2017 and first in New Zealand[6] as of June 30, 2017.

ANZBGL's principal ordinary share listing and quotation is on the Australian Securities Exchange ("**ASX**"). Its ordinary shares are also quoted on the New Zealand Stock Exchange (the "**NZX**"). At the close of trading on September 29, 2017, ANZBGL had a market capitalization of A$86.9 billion, which ranked among the top five largest companies listed on the ASX[7].

### Business Model

The ANZ Group's business model primarily consists of raising funds through customer deposits and the wholesale debt markets and lending those funds to customers. In addition, the ANZ Group earns revenue from its Wealth business through the provision of insurance, superannuation and funds management services, and its Markets business from sales, trading and risk management activities. The ANZ Group also provides payments and clearing solutions.

The ANZ Group's primary lending activities are personal lending covering residential home loans, credit cards and overdrafts, and lending to corporate and institutional customers.

The ANZ Group's income is derived from a number of sources, primarily:

- net interest income – represents the difference between the interest income the ANZ Group earns on its lending activities and the interest paid on customer deposits and wholesale funding;

- net fee and commission income – represents fee income earned on lending and non-lending related financial products and services;

- other income – includes share of associates' profit, net foreign exchange earnings, gains and losses from economic and revenue hedges as well as revenues generated from sales, trading and risk management activities in the Markets business; and

- net funds management and insurance income – represents income earned from the provision of investment, insurance and superannuation solutions.

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*(1) Source: Commonwealth Bank of Australia results announcement for the fiscal year ended June 30, 2017; National Australia Bank results announcement for the fiscal year ended September 30, 2017; Westpac Banking Corporation results announcement for the fiscal year ended September 30, 2017.*

*(2) Source: ASB Bank disclosure statement for the fiscal year ended June 30, 2017; Bank of New Zealand disclosure statement for the 9 months ended June 30, 2017; Westpac New Zealand disclosure statement for the 9 months ended June 30, 2017.*

*(3) Source: IRESS.*

**Strategy**

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

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

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

**Principal activities of the ANZ Group**

During the 2017 fiscal year, the Group made changes to its operating model for technology, operations and shared services to accelerate delivery of its technology and digital roadmap and bring operations closer to its customers base in an effort to achieve operational efficiency gains. As a result of these organizational changes, divisional operations from Technology, Services & Operations ("**TSO**") and Group Center have been realigned to divisions. The residual TSO and Group Center now contains Group Technology, Group Hubs, Enterprise Services and Group Property and the Group Center. The Group operates on a divisional structure with six divisions: Australia, Institutional, New Zealand, Wealth Australia, Asia Retail & Pacific and TSO and Group Center.

Other than the changes described above, there have been no other significant structural changes in the 2017 fiscal year. The divisions reported below are consistent with operating segments as defined in IFRS 8 and with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

As of September 30, 2017, the principal activities of the six divisions were:

**Australia**

The Australia division comprises the Retail and Corporate and Commercial Banking ("**C&CB**") business units.

- Retail provides products and services to consumer and private banking customers in Australia via the branch network, mortgage specialists, the contact center and a variety of self-service channels (internet banking, phone banking, ATMs, website and digital banking) and third-party brokers.

- C&CB 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 small, medium and large enterprises as well as the agricultural business segment.

**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 Group's interest rate exposure and liquidity position.

### New Zealand

See "Overview" in this Offering Memorandum.

### Wealth Australia

The Wealth Australia division comprises the Insurance and Funds Management business units, which provide insurance, investment and superannuation solutions intended to make it easier for customers to connect with, protect and grow their wealth.

- Insurance includes life insurance, general insurance and ANZ Lenders Mortgage Insurance.

- Funds Management includes the Pensions and Investments business and ANZ Share Investing.

On October 17, 2017, the Group announced it had agreed to sell its OnePath P&I and aligned dealer groups businesses to IOOF. The aligned dealer groups business consists of aligned advice businesses that operate under their own Australian financial services licenses and are owned indirectly by ANZ. Completion is expected in the March 2019 half subject to certain conditions including regulatory approvals and the completion of the extraction of the OnePath P&I business from OnePath Life Insurance. For further information on this sale, see "Overview—Recent Developments—The ANZ Group's Strategic Review of its Wealth Businesses." ANZ continues to review options for its Life Insurance business.

### Asia Retail & Pacific

The Asia Retail & Pacific division comprises the Asia Retail & Pacific business units, connecting customers to specialists for their banking needs.

- Asia Retail provides general banking and wealth management services to affluent and emerging affluent retail customers via relationship managers, branches, contact centers and a variety of self-service digital channels (internet and mobile banking, phone and ATMs). Core products offered include deposits, credit cards, loans, investments and insurance. Subject to regulatory approval, ANZ expects the sale of its Retail and Wealth businesses in Taiwan and Indonesia and the sale of its Retail business in Vietnam to be completed early in the 2018 calendar year.
- Pacific provides products and services to retail customers, small to medium-sized enterprises, institutional customers and Governments located in the Pacific Islands. Products and services include retail products provided to consumers, traditional relationship banking and sophisticated financial solutions provided to business customers through dedicated managers.

### Technology, Services & Operations and Group Center

TSO and Group Center provide support to the operating divisions, including technology, group operations, shared services, property, risk management, financial management, strategy, marketing, human resources and corporate affairs. The Group Center includes Group Treasury, Shareholder Functions and minority investments in Asia. Subject to customary closing conditions and regulatory approvals, the sale of Shanghai Rural Commercial Bank, which is one of ANZ Group's minority investments in Asia, is expected to be completed by late in the 2017 calendar year.

## 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 29, 2017 (the "**RBNZ Report**"). The information in this section has been accurately reproduced and as far as we are aware and are able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading. For more information, please see the full RBNZ Report, which is available from the RBNZ's website at: http://www.rbnz.govt.nz/financial-stability/financial-stability-report. The information in the RBNZ Report is not necessarily up to date as of the date of this Offering Memorandum. Additionally, it is not incorporated by reference herein and does not form part of this Offering Memorandum.

New Zealand's financial system remains sound. The banking system maintains adequate buffers over minimum capital requirements. Recent stress tests suggest that banks can withstand a severe economic downturn, although results are sensitive to a range of assumptions. Overall, the banking system appears to be operating efficiently in performing its financial intermediation role, despite a tightening in lending standards, which has contributed to a slowing in credit growth.

While New Zealand's financial system remains exposed to a number of risks, these risks have reduced over the past six months. The key risks facing the financial system are: housing market vulnerabilities, dairy sector indebtedness and the banking system's exposure to volatility in international funding markets.

House price growth has slowed notably over the past year, reflecting a combination of factors. Household credit growth has also moderated. This is partly due to a tightening in banks' lending standards, which will support the quality of their new mortgage lending and the resilience of their housing portfolios. Nevertheless, house prices remain high relative to incomes and rents, and many households are highly indebted, leaving them vulnerable to an increase in interest rates or a decline in incomes.

Higher dairy prices have improved profitability in the dairy sector. As a result, the performance of banks' dairy lending portfolios has improved and dairy credit growth has slowed. However, with farms having further increased leverage during the recent downturn, it will take a number of seasons of debt repayment before debt is reduced to more sustainable levels. In the meantime, the dairy sector remains vulnerable to another period of low dairy prices or an increase in interest rates.

As a small open economy with a persistent current account deficit, New Zealand is exposed to international developments and risks. New Zealand's net external liability position has declined notably since 2009 and is currently at its lowest level as a share of GDP since the late 1980s, leaving the economy less vulnerable to external shocks. But given the country's structural funding gap, New Zealand banks still source around a quarter of their funding from abroad. This exposes them to disruptions in international financial markets that can affect the availability and cost of funding.

Momentum in the global economy has continued to build over the past six months, reducing near-term risks to financial stability both domestically and abroad. However, current global macro-financial conditions continue to present a risk to financial stability. The combination of high asset valuations and elevated debt levels leave the global financial system vulnerable to negative shocks and an accompanying repricing of risk. Key international risks that could have implications for New Zealand include: unintended consequences associated with an unwinding of unconventional monetary policies; a disruptive adjustment in China's financial system following a decade of rapid credit growth; and high household indebtedness in Australia.

New Zealand's financial system remains sound and appears to be operating efficiently. The banking system continues to hold adequate buffers of capital, liquid assets, and stable funding relative to regulatory requirements. Bank profitability remains robust, supported by strong asset performance. Credit growth has slowed, partly due to a tightening in lending standards. As a result, banks have been able to reduce their reliance on offshore funding and they have also increased the average maturity of that funding. A moderation in risk appetite by the major banks has seen smaller banks and non-bank lenders increase their market share.

The insurance sector has experienced a record level of claims from weather-related events in 2017. The sector has been able to meet these claims, although the cost has significantly reduced the profit margins of some general insurers and aggregate solvency margins have declined further. Claims processes have improved following the Canterbury earthquakes, with insurers making significant progress in settling claims from the Kaikoura earthquake.

The RBNZ continues to make progress on a broad range of regulatory policy initiatives. To date, two consultation papers have been released on the review of the capital adequacy framework for banks and more papers are forthcoming. A thematic review of the bank directors' attestation regime has been undertaken. The RBNZ has also confirmed its decision to proceed with the dashboard approach to quarterly disclosures for banks and implementation work has begun. In November, the RBNZ published its response to the public consultation on the potential additions of serviceability restrictions in the macro-prudential toolkit.

Progress has been made on a number of other initiatives including: the publication of the revised outsourcing policy, the review of the Insurance (Prudential Supervision) Act, consultation on issues around foreign margin requirements for over-the-counter derivatives, and the proposed oversight framework for financial market infrastructures.

## Board of Directors of ANZ New Zealand

***Composition of Board of Directors***

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

| Name | Age | Position |
|---|---|---|
| John Judge | 64 | Independent Non-Executive Director and Chair |
| David Hisco | 54 | Director and Chief Executive Officer |
| Antony Carter | 60 | Independent Non-Executive Director |
| Joan Withers | 64 | Independent Non-Executive Director |
| Mark Verbiest | 59 | Independent Non-Executive Director |
| John Key | 56 | Independent Non-Executive Director |
| Shayne Elliott | 53 | Non-Executive Director, Chief Executive Officer, ANZBGL |
| Nigel Williams | 55 | Non-Executive Director, Chief Risk Officer, ANZBGL |

For purposes of this Offering Memorandum, the business address of each member of the Board of Directors is ANZ Centre, Ground Floor, 23-29 Albert Street, Auckland 1010, New Zealand.

As at the date of this Offering Memorandum, no conflicts of interest and no potential conflicts of interest exist between any duties owed to ANZ New Zealand by the members of its Board of Directors listed above and their private interests and/or other duties outside of the ANZ New Zealand Group. In respect of potential conflicts of interest that may arise in the future, ANZ New Zealand has processes for the management of such conflicts such that we do not expect any actual conflict of interest would arise.

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

**John Judge.** Mr. Judge joined the Board on December 22, 2008. He was appointed Chair on June 23, 2012 following the retirement of Sir Dryden Spring, the previous Chair. Mr. Judge was Chief Executive of Ernst & Young New Zealand from 1995 to 2007 and brings considerable experience in Australasian business and financial and analytical knowledge to the Board. He is also a director of Fletcher Building Limited, Fletcher Building Industries Limited and The New Zealand Initiative Limited. He is also an advisory board member for the University of Otago School of Business. Mr. Judge will retire from the Board at the end of December. See "Overview—Recent Developments—Changes to ANZ New Zealand's Board of Directors."

**David Hisco.** Mr. Hisco was appointed Director and Chief Executive Officer of ANZ New Zealand on October 13, 2010. Mr. Hisco was also appointed as the Group Executive for Pacific and International Retail and Asia Wealth in February and March 2016. Previously, Mr. Hisco was ANZ Group Managing Director Commercial for Australia based in Melbourne. He was appointed to replace Dr. Jennifer Fagg who resigned as Chief Executive Officer and as a Director of ANZ New Zealand on September 1, 2010. Mr. Hisco is a member of the ANZBGL executive committee and is the Chair of the New Zealand Bankers Association for the 2016/2017 year. During his 30-year career at ANZ, Mr. Hisco has held a number of senior executive roles in retail and commercial banking, including two years as Managing Director of UDC in New Zealand between 1998 and 2000. Mr. Hisco holds a Bachelor of Business (Accounting) from Deakin University, a Graduate Diploma in Business Administration from Monash University, and an Executive Masters of Business Administration from Monash University (Mt Eliza).

**Antony Carter.** Mr. Carter was appointed as an independent non-executive director of ANZ New Zealand on August 26, 2011 following the resignation of Dr. Don Brash. Mr. Carter was managing director of Foodstuffs (Auckland) and Foodstuffs (New Zealand), New Zealand's largest retail organization, from 2001 to 2010. Mr. Carter has extensive experience in retailing, having joined Foodstuffs in 1994. Prior to this he owned and operated several Mitre 10 hardware stores and was a director and later Chair of Mitre 10 New Zealand Limited. Mr. Carter is Chair of Air New Zealand Limited, Blues Management Limited and Fisher & Paykel Healthcare Corporation Limited and a director of Fletcher Building Industries Limited and Fletcher Building Limited.

**Joan Withers.** Mrs. Withers was appointed as an independent non-executive Director of the Board of ANZ New Zealand on July 1, 2013. Mrs. Withers has an extensive career in management and governance roles in New Zealand, being the former CEO of Fairfax Media and The Radio Network. Mrs. Withers is also the Chair of Mercury NZ Limited, the Chair of The Warehouse Group Limited and a director of On Being Bold Limited. Mrs. Withers is also on the advisory board of the New Zealand Treasury. Mrs. Withers has an MBA from the University of Auckland and is the author of "A Girl's Guide to Business" and "A Woman's Place" which were published by Penguin in 1998 and 2017 respectively.

**Mark Verbiest.** Mr. Verbiest was appointed as an independent 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 Spark New Zealand Limited and Willis Bond General Partner Limited and Willis Bond Capital Partners Limited. Mr. Verbiest is also a director of Meridian Energy Limited and the New Zealand Treasury.

**Rt Hon Sir John Key.** Sir John was appointed as an independent non-executive Director of the Board of ANZ New Zealand on October 18, 2017 and will succeed Mr. 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 is also a director of Air New Zealand Limited and an ambassador for Dr. Haruhisa Handa, including the International Sports Promotion Society and The Handa Foundation. Sir John was Prime Minister of New Zealand from 2008 to 2016 and has previously worked for Merrill Lynch and the Bankers Trust New Zealand.

**Shayne Elliott.** Mr. Elliott was appointed a non-executive director of the Board of ANZ New Zealand on August 11, 2009. Mr. Elliott was appointed Chief Executive Officer of ANZBGL on January 1, 2016, formerly holding the position of Chief Financial Officer of ANZBGL from June 1, 2012, and the position of Chief Financial Officer Designate with ANZBGL from March 1, 2012, and prior to that, Chief Executive Officer, Institutional with ANZBGL. Mr. Elliott took up the position of Chief Executive Officer, Institutional with ANZBGL in June 2009, having spent more than twenty years at Citigroup. On January 1, 2016, Mr. Elliott succeeded Mr. Michael Smith as Chief Executive Officer of ANZBGL. Before joining ANZBGL, Mr. Elliott was Head of Business Development for EFG Hermes, the largest investment bank in the Middle East. Mr. Elliott has a significant breadth of experience in banking at a regional and a country level, and in all aspects of the industry. Mr. Elliott is also Director of the Financial Markets Foundation for Children and a member of the Australian Banker's Association and Business Council of Australia. Mr. Elliott will Chair the Australian Bankers' Association from December 2017.

**Nigel Williams**. Mr. Williams is a director of Shanghai Rural Commercial Bank Co. Ltd and was appointed as a non-executive Director of the Board of ANZ New Zealand on December 14, 2015. Mr. Williams is the Chief Risk Officer of ANZBGL and the former Managing Director, Institutional, Australia. Mr. Williams was Alternate Director for Mr. Smith from January 2014 to December 2015. Mr. Williams has previously worked for ANZ New Zealand and Southpac in New Zealand. Mr. Williams is a graduate of Otago University, a former Director of NZX Limited, ANZ Share Investing Australia Limited and Australian Financial Markets Association, and a past board member of INFINZ. Mr. Williams is a member of the New Zealand Institute of Directors and in 2009 was awarded a fellow of INFINZ. He was a member of New Zealand's 2008 Capital Market Development Taskforce.

### Remuneration of ANZ New Zealand directors

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

### Related party transactions

As permitted under New Zealand law, we extend loans to directors and executives. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. For further information refer to Note 30 of the 2017 Disclosure Statement.

### Board committees

To assist in the execution of its responsibilities, the Board has established committees, including an Audit Committee, a Human Resources Committee and a Risk Committee, each with a charter, to assist and support the Board in the conduct of its duties and obligations. The Chair of the Board is a member of each committee.

***Audit Committee*** — The purpose of the Audit Committee is to assist the Board in its review and approval of:

(a) the financial reporting principles and policies, controls, systems and procedures of ANZ New Zealand;

(b) the compliance of ANZ New Zealand with applicable local financial reporting, prudential reporting and audit requirements as well as those of ANZ Group;

(c) the effectiveness of ANZ New Zealand's internal control and risk management framework;

(d) the work and internal audit standards of Internal Audit;

(e) the integrity of ANZ New Zealand's financial statements and the independent audit thereof and compliance with relevant legal and regulatory requirements thereof;

(f) any due diligence procedures; and

(g) prudential supervision procedures required by regulatory bodies to the extent relating to financial reporting.

In carrying out its responsibilities and duties, the 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), Mr. Judge, Mrs. Withers, Mr. Carter, Sir John Key and Mr. Williams.

***Human Resources Committee*** — This Committee is responsible for reviewing and, where necessary, making recommendations to the Board in respect of remuneration policies and practices, including the remuneration arrangements relating to the Chair, Directors, Chief Executive, and nominated senior management and executive officers, and the remuneration structure of all other classes of persons covered by the ANZ Remuneration Policy.

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

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

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

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

(c) assist the Board by providing an objective non-executive oversight of the implementation by management of ANZ New Zealand's risk and compliance management frameworks and its related operation and by enabling an institution-wide view of ANZ New Zealand's current and future risk position relative to its risk appetite and capital strength; and

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

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

**Board practices**

Currently, our Board consists of eight directors, five of whom are independent non-executive directors. The Board includes one executive of ANZ New Zealand (the Chief Executive) and two executives of ANZBGL. Board composition is reviewed when a vacancy arises or if it is considered that the Board would benefit from the services of a new director, given the existing mix of skills and experience of the Board.

Under our Conditions of Registration, no appointment of any director or chief executive officer or Chair shall be made to the Board unless a copy of the curriculum vitae of the proposed appointee has been provided to the RBNZ and the RBNZ has advised that it has no objection to the appointment. The Conditions of Registration require that at least half of the directors on the Board be independent and that the Chair is not an employee of ANZ New Zealand.

The Board collectively and each director individually has the right to seek independent professional advice at ANZ New Zealand's expense.

In accordance with the Companies Act 1993 of New Zealand, directors must keep the Board advised, on an on-going basis, of any interest that could potentially conflict with our own interests. A director who is interested in a transaction may attend meetings and vote on a matter relating to the transaction. However, the Board has adopted a guideline whereby a director with an interest in a transaction should not be present during any discussions, and should not vote on any matter pertaining to that particular transaction.

### ANZ New Zealand’s constitution

ANZ New Zealand’s constitution is available online on the searchable register at www.companiesoffice.govt.nz/companies/. Under ANZ New Zealand’s constitution, the Board holds all necessary powers for the management of the business and operation of the company. In particular, there are no restrictions in ANZ New Zealand’s constitution on ANZ New Zealand borrowing or providing a guarantee.

The Board has the power to issue shares in different classes and on different terms and conditions. Under the constitution, the Board is expressly authorized to issue further shares ranking equally with, or in priority to, existing shares, whether as to voting rights or distributions or otherwise and such issue is not deemed to be an action affecting the rights attached to the existing shares. However, where ANZ New Zealand takes action which affects the rights attached to shares (other than by way of issue of further shares ranking equally with, or in priority to, existing shares) such action must be approved by special resolution of each affected interest group. There are no restrictions in ANZ New Zealand’s constitution on changes in capital, rights to own securities or restrictions on foreign shareholders.

There is no shareholding qualification for directors of ANZ New Zealand, and no mandatory retirement age. The Board has the power to fix each director’s remuneration and ANZ New Zealand shall indemnify every director or employee out of the assets of ANZ New Zealand to the maximum extent permitted by law. Directors can be appointed and removed by the shareholders of ANZ New Zealand, although the Board has the power at any time to also appoint directors.

Under the Companies Act 1993 of New Zealand, directors who are interested in a transaction of ANZ New Zealand are required to disclose their interest. Failure to disclose this interest will not affect the validity of the transaction or the ability of the director to attend and vote at the relevant board meeting, but the director can be personally liable and if ANZ New Zealand does not receive fair value under the transaction, the transaction may be voided within three months of its disclosure to all shareholders of ANZ New Zealand.

In regard to shareholders, the power to:

- alter, revoke or adopt a new constitution,
- approve a major transaction, or
- approve an amalgamation, put ANZ New Zealand into liquidation or apply for the removal of ANZ New Zealand from the register of companies,

must be exercised by special resolution of the shareholders under the Companies Act 1993 of New Zealand. All other powers reserved to shareholders may be exercised by an ordinary resolution of shareholders. Resolutions can be passed at a meeting of shareholders or pursuant to a written resolution in lieu of a meeting.

### Board of Directors of ANZNIL

At the date of this Offering Memorandum, the members of ANZNIL’s Board were as follows:

| Name | Age | Principal Outside Activities |
|---|---|---|
| David Hisco | 54 | Chief Executive Officer and Director, ANZ New Zealand and Group Executive for Pacific and International Retail and Asia Wealth |
| Stewart Taylor | 44 | Chief Financial Officer, ANZ New Zealand |
| Anthony Bradshaw | 58 | Managing Director of the New Zealand Branch of ANZBGL and Head of Asset and Liability Management, ANZ New Zealand |

For purposes of this Offering Memorandum, the business address of each director of the board of ANZNIL is ANZ Centre, Ground Floor, 23-29 Albert Street, Auckland 1010, New Zealand.

As at the date of this Offering Memorandum, no conflicts of interest and no potential conflicts of interest exist between any duties owed to ANZNIL by the members of its board of directors listed above and their private interests and/or other duties outside of ANZNIL. In respect of potential conflicts of interest that may arise in the future, ANZNIL has processes for the management of such conflicts such that we do not expect any actual conflict of interest would arise.

# Description of the Notes and the Guarantee

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

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

As you read this section, please remember that the specific terms of your Note as described in your Final Terms will supplement the general terms described in this section.

### This section is only a summary

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

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

### The Notes will be issued under the Fiscal Agency Agreement

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

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

### We may issue other series of debt securities

The Fiscal Agency Agreement permits us to issue different series of debt securities from time to time. We may also issue Notes in such amounts, at such times and on such terms as we wish. The Notes will differ from one another, and from other series, in their terms.

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

### Amounts that we may issue

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

We intend to issue Notes from time to time, initially in an amount having the aggregate offering price specified on the cover of this Offering Memorandum. However, we may issue additional Notes in amounts that exceed the amount on the cover at any time, without your consent and without notifying you.

Our affiliates may use this Offering Memorandum to resell Notes in market-making transactions from time to time, including both Notes that we have issued before the date of this Offering Memorandum and Notes that we have not yet issued. We describe these transactions under "Notice to Purchasers" and "Plan of Distribution" below.

The Fiscal Agency Agreement and the Notes do not limit our ability to incur other indebtedness or to issue other securities. Also, we are not subject to financial or similar restrictions by the terms of the Notes or the Fiscal Agency Agreement.

#### Guarantee

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

#### How the Notes and Guarantee rank against other debt

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

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

#### Principal amount, stated maturity and maturity

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

We also use the terms "**stated maturity**" and "**maturity date**" to refer to the days when other payments become due. For example, we may refer to a regular interest payment date when an instalment of interest is scheduled to become due as the "stated maturity" of that instalment.

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

#### Currency of Notes

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

#### Types of Notes

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

### *Fixed Rate Notes*

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

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

### *Floating Rate Notes*

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

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

### *Original Issue Discount Notes*

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

### Information in the Final Terms

Your Final Terms will describe one or more of the following terms of your Notes:

- the title of your Notes;
- the stated maturity;
- the Specified Currency or currencies for principal, premium and interest, if not U.S. dollars;
- the price at which we originally issue your Note, expressed as a percentage of the principal amount, and the issue date;
- whether your Note is a Fixed Rate Note, a Floating Rate Note, an Original Issue Discount Note (which may be a Zero Coupon Note) or any combination of the foregoing;
- if your Note is a Fixed Rate Note, the yearly rate at which your Note will bear interest, if any, and the interest payment dates, if different from those stated below under "—Interest rates—Fixed Rate Notes", and the conditions, if any, under which each Note may convert into or be exchangeable for a Floating Rate Note;

- if your Note is a Floating Rate Note, the interest rate basis, which may be one of the eleven Base Rates described in "—Interest rates—Floating Rate Notes" below; any applicable index currency or Index Maturity (each, as defined herein), Spread or Spread Multiplier or initial, maximum or minimum rate; the interest reset, determination, calculation and interest payment dates; the day count used to calculate interest payments for any period; and the Calculation Agent, all of which we describe under "—Interest rates—Floating Rate Notes" below and the conditions, if any, under which each Note may convert into or be exchangeable for a Fixed Rate Note;

- if your Note is an Original Issue Discount Note, the yield to maturity;

- if applicable, the circumstances under which your Note may be redeemed at our option or repaid at the Holder's option before the stated maturity, including any redemption commencement date, repayment date(s), redemption price(s) and redemption period(s), all of which we describe under "—Redemption and repayment" below;

- the authorized denominations, if other than denominations of US$200,000, and multiples of US$1,000;

- the Depositary for your Note, if other than DTC, and any circumstances under which the Holder may request Notes in non-global form, if we choose not to issue your Note in book-entry form only;

- the name of each offering Agent;

- the discount or commission to be received by the offering Agent or Agents;

- the net proceeds to the Issuer; and

- the names and duties of any co-agents, depositaries, Paying Agents, transfer agents, exchange rate agents or registrars for your Note.

**Form of Notes**

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

In addition, we will issue each Note in registered form, without coupons.

**Interest rates**

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

***Fixed Rate Notes***

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

***Floating Rate Notes***

In this subsection, we use several specialized terms relating to the manner in which floating interest rates are calculated. These terms appear in bold, italicized type the first time they appear, and we define these terms in "—Special rate calculation terms" at the end of this subsection.

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

***Base Rates***

We currently expect to issue Floating Rate Notes that bear interest at rates based on one or more of the following "Base Rates":

- CD Rate;
- CMT Rate;
- Commercial Paper Rate;
- EURIBOR;
- Federal Funds Rate;
- LIBOR;
- Prime Rate; and/or
- Treasury Rate.

We describe each of the Base Rates in further detail below in this subsection.

If you purchase a Floating Rate Note, your Final Terms will specify the type of Base Rate that applies to your Note.

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

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

- unless such Floating Rate Note is designated as a "Floating Rate/Fixed Rate Note," a "Fixed Rate/Floating Rate Note" or an "Inverse Floating Rate Note," or as having an addendum attached or having "other/additional provisions" apply, in each case relating to a different interest rate formula, such Floating Rate Note will be designated as a "Regular Floating Rate Note" and, except as described below or as specified in the applicable Note, will bear interest at the rate determined by reference to the applicable Base Rate (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any. Commencing on the first Interest Reset Date occurring after the issue date (the "initial Interest Reset Date"), the rate at which interest on such Regular Floating Rate Note shall be payable will be reset as at each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the issue date to the initial Interest Reset Date will be the initial interest rate;

- if such Floating Rate Note is designated as a "Floating Rate/Fixed Rate Note," then, except as described below or as specified in the applicable Note, such Floating Rate Note will bear interest at the rate determined by reference to the applicable Base Rate (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any. Commencing on the initial Interest Reset Date, the rate at which interest on such Floating Rate/Fixed Rate Note will be payable will be reset as at each Interest Reset Date; provided, however, that (x) the interest rate in effect for the period, if any, from the issue date to the initial Interest Reset Date will be the initial interest rate and (y) the interest rate in effect for the period commencing on the date specified in the relevant Final Terms (the "Fixed Rate Commencement Date") to the maturity date will be the fixed interest rate, if such rate is specified in the applicable Note and the relevant Final Terms or, if no such fixed interest rate is specified, the interest rate in effect thereon on the business day immediately preceding the Fixed Rate Commencement Date;

- if such Floating Rate Note is designated as a "Fixed Rate/Floating Rate Note," then, except as described below or as specified in the applicable Note and the relevant Final Terms, such Floating Rate Note will bear interest at the fixed rate specified in such Note from the issue date to the date specified in the relevant Final Terms (the "Floating Rate Commencement Date") and the interest rate in effect for the period commencing on such Floating Rate Commencement Date will be the rate determined by reference to the applicable Base Rate (x) plus or minus the applicable Spread, if any, and/or (y) multiplied by the applicable Spread Multiplier, if any, each as specified in such Note or the relevant Final Terms. Commencing on the first Interest Reset Date after such Floating Rate Commencement Date, the rate at which interest on such Fixed Rate/Floating Rate Note will be payable will be reset as at each Interest Reset Date;

- if such Floating Rate Note is designated as an "Inverse Floating Rate Note," then, except as described below or as specified in the applicable Note, such Floating Rate Note will bear interest at the fixed interest rate minus the rate determined by reference to the applicable Base Rate (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any; provided, however, that, unless otherwise specified in the applicable Note and the relevant Final Terms, the interest rate thereon will not be less than zero. Commencing on the initial Interest Reset Date, the rate at which interest on such Inverse Floating Rate Note will be payable will be reset as at each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the issue date to the initial Interest Reset Date will be the initial interest rate.

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

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

- by adding or subtracting a specified number of basis points, called the "Spread", with one basis point being 0.01%; or

- by multiplying the Base Rate by a specified percentage, called the "Spread Multiplier".

If you purchase a Floating Rate Note, your Final Terms will specify whether a Spread or Spread Multiplier will apply to your Note and, if so, the amount of the Spread or Spread Multiplier.

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

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

- a minimum rate-i.e., a specified lower limit that the actual interest rate in effect at any time may not fall below.

If you purchase a Floating Rate Note, your Final Terms will specify whether a maximum rate and/or minimum rate will apply to your Note and, if so, what those rates are.

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

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

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

- for Floating Rate Notes that reset daily, each business day;

- for Floating Rate Notes that reset weekly and are not Treasury Rate Notes, the Wednesday of each week;
- for Treasury Rate Notes that reset weekly, the Tuesday of each week, except as otherwise described in the next to last paragraph under "—Interest Determination Dates" below;
- for Floating Rate Notes that reset monthly, the third Wednesday of each month;
- for Floating Rate Notes that reset quarterly, the third Wednesday of March, June, September and December of each year;
- for Floating Rate Notes that reset semi-annually, the third Wednesday of each of two months of each year as specified in the relevant Final Terms; and
- for Floating Rate Notes that reset annually, the third Wednesday of one month of each year as specified in the relevant Final Terms.

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

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

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

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

- For all Floating Rate Notes, LIBOR Notes, EURIBOR Notes and Treasury 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. We refer to an Interest Determination Date for a LIBOR Note as a "LIBOR Interest Determination Date".
- For EURIBOR Notes, the Interest Determination Date relating to a particular Interest Reset Date will be the second euro business day preceding the Interest Reset Date. We refer to an Interest Determination Date for a EURIBOR Note as a "EURIBOR Interest Determination Date".
- For Treasury Rate Notes, the Interest Determination Date relating to a particular Interest Reset Date, which we refer to as a "Treasury Interest Determination Date", will be the day of the week in which the Interest Reset Date falls on which Treasury Bills-i.e., direct obligations of the U.S. government-would normally be auctioned. Treasury Bills are usually sold at auction on the Monday of each week, unless that day is a legal holiday, in which case the auction is usually held on the following Tuesday, except that the auction may be held on the preceding Friday. If as the result of a legal holiday an auction is held on the preceding Friday, that Friday will be the Treasury Interest Determination Date relating to the Interest Reset Date occurring in the next succeeding week. If the auction is held on a day that would otherwise be an Interest Reset Date, then the Interest Reset Date will instead be the first business day following the auction date.

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

*Interest Calculation Dates.* As described above, the interest rate that takes effect on a particular Interest Reset Date will be determined by reference to the corresponding Interest Determination Date. Except for LIBOR Notes and EURIBOR Notes, however, the determination of the rate will actually be made on a day no later than the corresponding interest calculation date. The interest calculation date will be the earlier of the following:

- the tenth calendar day after the Interest Determination Date or, if that tenth calendar day is not a business day, the next succeeding business day; and

- the business day immediately preceding the interest payment date or the maturity date, whichever is the day on which the next payment of interest will be due.

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

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

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

- for Floating Rate Notes that reset quarterly, the third Wednesday of March, June, September and December of each year;

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

- for Floating Rate Notes that reset annually, the third Wednesday of the month specified in the relevant Final Terms.

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

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

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

For each Floating Rate Note, the Calculation Agent will determine, on or before the corresponding interest calculation or determination date, the interest rate that takes effect on each Interest Reset Date. 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 the following:

- 360, in the case of Commercial Paper Rate Notes, Prime Rate Notes, LIBOR Notes, EURIBOR Notes, CD Rate Notes and Federal Funds Rate Notes; or

- the actual number of days in the year, in the case of Treasury Rate Notes and CMT Rate Notes.

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

All percentages resulting from any calculation relating to a Note will be rounded upward or downward, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one millionths of a percentage point rounded upward, e.g., 9.876541% (or .09876541) being rounded down to 9.87654% (or .0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or .0987655). All amounts used in or resulting from any calculation relating to a Floating Rate Note will be rounded upward or downward, as appropriate, to the nearest cent, in the case of U.S. dollars, or to the nearest corresponding hundredth of a unit, in the case of a currency other than U.S. dollars, with one-half cent or one-half of a corresponding hundredth of a unit or more being rounded upward.

In determining the Base Rate that applies to a Floating Rate Note during a particular interest period, the Calculation Agent may obtain rate quotes from various banks or dealers active in the relevant market. Those reference banks and dealers may include the Calculation Agent itself and its affiliates, as well as any underwriter, dealer or agent participating in the distribution of the relevant Floating Rate Notes and its affiliates, and they may include affiliates of ANZ New Zealand.

***CD Rate Notes***

If you purchase a CD Rate Note, your Note will bear interest at a Base Rate equal to the CD Rate as adjusted by the Spread or Spread Multiplier, if any, specified in the applicable Final Terms.

The CD Rate will be the rate, for the relevant Interest Determination Date, for negotiable U.S. dollar certificates of deposit having the Index Maturity specified in the applicable Final Terms, as published in the source specified in the applicable Final Terms. If the CD Rate cannot be determined in this manner, the following procedures will apply.

- If the rate described above does not appear in the source specified in the applicable Final Terms 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 CD Rate will be the rate, for the relevant Interest Determination Date, described above as published in the source specified in the applicable Final Terms or another recognized electronic source used for displaying that rate, under the heading specified in the applicable Final Terms.

- If the rate described in the prior paragraph does not appear in the source specified in the applicable Final Terms 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 CD Rate will be the arithmetic mean of the following secondary market offered rates for negotiable U.S. dollar certificates of deposit of major U.S. money center banks with a remaining maturity closest to the specified Index Maturity, and in a representative amount: the rates offered as of 10:00 A.M., New York City time, on the relevant Interest Determination Date, by three leading nonbank dealers in negotiable U.S. dollar certificates of deposit in New York City, as selected by the Calculation Agent.

- If fewer than three dealers selected by the Calculation Agent are quoting as described in the prior paragraph, the CD Rate in effect for the new interest period will be the CD 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.

***CMT Rate Notes***

If you purchase a CMT Rate Note, your Note will bear interest at a Base Rate equal to the CMT Rate as adjusted by the Spread or Spread Multiplier, if any, specified in the applicable Final Terms.

The CMT Rate will be any of the following rates displayed on the Designated CMT Reuters Page under the heading "Treasury Constant Maturities" for the designated CMT Index Maturity:

- if the Designated CMT Reuters Page is the Reuters Page FRBCMT, the rate for the relevant Interest Determination Date; or

- if the Designated CMT Reuters Page is the Reuters Page FEDCMT, the weekly or monthly average, as specified in the applicable Final Terms, for the week that ends immediately before the week in which the relevant Interest Determination Date falls, or for the month that ends immediately before the month in which the relevant Interest Determination Date falls, as applicable.

If the CMT Rate cannot be determined in this manner, the following procedures will apply.

- If the applicable rate described above is not displayed on the relevant Designated CMT Reuters Page 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 CMT Rate will be the applicable treasury constant maturity rate described above-i.e., for the designated CMT Index Maturity and for either the relevant Interest Determination Date or the weekly or monthly average, as applicable, as published in H.15 under the heading "Treasury Constant Maturities".

- If the applicable rate described above does not appear in H.15 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), then the CMT Rate will be the Treasury constant maturity rate, or other U.S. Treasury Rate, for the designated CMT Index Maturity and with reference to the relevant Interest Determination Date, that:

    - is published by the Board of Governors of the Federal Reserve System, or the U.S. Department of the Treasury, and

    - is determined by the Calculation Agent to be comparable to the applicable rate formerly displayed on the Designated CMT Reuters Page and published in H.15.

- If the rate described in the prior paragraph does not appear 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), then the CMT Rate will be the yield to maturity of the arithmetic mean of the following secondary market offered rates for the most recently issued Treasury Notes (as defined below) having an original maturity of approximately the designated CMT Index Maturity and a remaining term to maturity of not less than the designated CMT Index Maturity minus one year, and in a representative amount: the offered rates, as of approximately 3:30 P.M., New York City time, on the relevant Interest Determination Date, of three primary U.S. government securities dealers in New York City selected by the Calculation Agent. In selecting these offered rates, the Calculation Agent will request quotations from five of these primary dealers and will disregard the highest quotation-or, if there is equality, one of the highest-and the lowest quotation-or, if there is equality, one of the lowest. "Treasury Notes" are direct, non-callable, fixed rate obligations of the U.S. government.

- If the Calculation Agent is unable to obtain three quotations of the kind described in the prior paragraph, the CMT Rate will be the yield to maturity of the arithmetic mean of the following secondary market offered rates for Treasury Notes with an original maturity longer than the designated CMT Index Maturity, with a remaining term to maturity closest to the designated CMT Index Maturity and in a representative amount: the offered rates, as of approximately 3:30 P.M., New York City time, on the relevant Interest Determination Date, of three primary U.S. government securities dealers in New York City selected by the Calculation Agent. In selecting these offered rates, the Calculation Agent will request quotations from five of these primary dealers and will disregard the highest quotation-or, if there is equality, one of the highest-and the lowest quotation-or, if there is equality, one of the lowest. If two Treasury Notes with an original maturity longer than the designated CMT Index Maturity have remaining terms to maturity that are equally close to the designated CMT Index Maturity, the Calculation Agent will obtain quotations for the Treasury Note with the shorter remaining term to maturity.

- If fewer than five but more than two of these primary dealers are quoting as described in each of the prior two paragraphs, then the CMT Rate for the relevant Interest Determination Date will be based on the arithmetic mean of the offered rates so obtained, and neither the highest nor the lowest of those quotations will be disregarded.

- If two or fewer primary dealers selected by the Calculation Agent are quoting as described in the prior paragraph, the CMT Rate in effect for the new interest period will be the CMT 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.

### *Commercial Paper Rate Notes*

If you purchase a Commercial Paper Rate Note, your Note will bear interest at a Base Rate equal to the Commercial Paper Rate as adjusted by the Spread or Spread Multiplier, if any, specified in the applicable Final Terms.

The Commercial Paper Rate for each interest period will be the Money Market Yield of the rate for the relevant Interest Determination Date and for commercial paper having the Index Maturity specified in the applicable Final Terms, as published in H.15 under the heading "Commercial Paper—Financial". If the Commercial Paper Rate cannot be determined as described above, the following procedures will apply.

- If the rate described above does not appear in H.15 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 Commercial Paper Rate will be the rate, for the relevant Interest Determination Date, for commercial paper having the Index Maturity specified in the applicable Final Terms, as published in H.15 daily update or any other recognized electronic source used for displaying that rate, in each case, under the heading "Commercial Paper—Financial".

- If the rate described above 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, then the Commercial Paper Rate will be calculated by the Calculation Agent and will be the Money Market Yield of the arithmetic mean of the following offered rates for U.S. dollar commercial paper that has the relevant Index Maturity and is placed for an industrial issuer whose bond rating is "AA", or the equivalent, from a nationally recognized rating agency: the rates offered as of 11:00 A.M., New York City time, on the relevant Interest Determination Date, by three leading U.S. dollar commercial paper dealers in New York City selected by the Calculation Agent.

- If fewer than three dealers selected by the Calculation Agent are quoting as described above, the Commercial Paper Rate for the new interest period will be the Commercial Paper Rate in effect for the prior interest period. If the Initial Base Rate has been in effect for the prior interest period, it will remain in effect for the new interest period.

### *EURIBOR Notes*

If you purchase a EURIBOR Note, your Note will bear interest at a Base Rate equal to the interest rate for deposits in euros designated as EURIBOR and sponsored jointly by the European Banking Federation and ACI-the Financial Market Association (or any company established by the joint sponsors for purposes of compiling and publishing that rate). In addition, the EURIBOR Base Rate will be adjusted by the Spread or Spread Multiplier, if any, specified in the applicable Final Terms. EURIBOR will be determined in the following manner:

- EURIBOR will be the offered rate for deposits in euros having the Index Maturity specified in the applicable Final Terms, beginning on the relevant Interest Reset Date, as that rate appears on Reuters Page EURIBOR01 as of 11:00 A.M., Brussels time, on the relevant EURIBOR Interest Determination Date.

- If the rate described in the prior paragraph does not appear on Reuters Page EURIBOR01, EURIBOR will be determined on the basis of the rates, at approximately 11:00 A.M., Brussels time, on the relevant EURIBOR Interest Determination Date, at which deposits of the following kind are offered to prime banks in the euro-zone interbank market by the principal euro-zone office of each of four major banks in that market selected by the Calculation Agent: euro deposits having the relevant Index Maturity, beginning on the relevant Interest Reset Date, and in a representative amount. The Calculation Agent will request the principal euro-zone office of each of these banks to provide a quotation of its rate. If at least two quotations are provided, EURIBOR for the relevant EURIBOR Interest Determination Date will be the arithmetic mean of the quotations.

- If fewer than two quotations are provided as described in the prior paragraph, EURIBOR for the relevant EURIBOR Interest Determination Date will be the arithmetic mean of the rates for loans of the following kind to leading euro-zone banks quoted, at approximately 11:00 A.M., Brussels time on that EURIBOR Interest Determination Date, by four major banks in the euro-zone selected by the Calculation Agent: loans of euros having the relevant Index Maturity, beginning on the relevant Interest Reset Date, and in a representative amount.

- If fewer than four banks selected by the Calculation Agent are quoting as described in the prior paragraph, EURIBOR for the new interest period will be EURIBOR in effect for the prior interest period.

If the Initial Base Rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

### *Federal Funds Rate Notes*

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

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

- If the rate described above is not displayed on Reuters Page FEDFUNDS1 at 3:00 P.M., New York City time, on the relevant interest calculation date (unless the calculation is made earlier and the rate is available from that source at that time), then the Federal Funds Rate, for the relevant Interest Determination Date, will be the rate described above as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading "Federal funds (effective)".

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

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

### *LIBOR Notes*

If you purchase a LIBOR Note, your Note will bear interest at a Base Rate equal to LIBOR for deposits in U.S. dollars or any other index currency, as specified in the applicable Final Terms. In addition, the applicable LIBOR Base Rate will be adjusted by the Spread or Spread Multiplier, if any, specified in the applicable Final Terms. LIBOR will be determined in the following manner:

- LIBOR will be the offered rate appearing on the Designated LIBOR Page, as of 11:00 A.M., London time, on the relevant LIBOR Interest Determination Date, for deposits of the relevant index currency having the relevant Index Maturity beginning on the relevant Interest Reset Date. The applicable Final Terms will indicate the index currency, the Index Maturity, and the Designated LIBOR Page that apply to your LIBOR Note.

- If no such rate appears on the Designated LIBOR Page, then LIBOR will be determined on the basis of the rates, at approximately 11:00 A.M., London time, on the relevant LIBOR Interest Determination Date, at which deposits of the following kind are offered to prime banks in the London interbank market by four major banks in that market selected by the Calculation Agent: deposits of the index currency having the relevant Index Maturity, beginning on the relevant Interest Reset Date, and in a representative amount. The Calculation Agent will request the principal London office of each of these banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for the relevant LIBOR Interest Determination Date will be the arithmetic mean of the quotations.

- If fewer than two quotations are provided as described in the prior paragraph, LIBOR for the relevant LIBOR Interest Determination Date will be the arithmetic mean of the rates for loans of the following kind to leading European banks quoted, at approximately 11:00 A.M., in the principal financial center, on that LIBOR Interest Determination Date, by three major banks in that financial center selected by the Calculation Agent: loans of the index currency having the relevant Index Maturity, beginning on the relevant Interest Reset Date, and in a representative amount.

- If fewer than three banks selected by the Calculation Agent are quoting as described in the prior paragraph, LIBOR for the new interest period will be LIBOR in effect for the prior interest period. If the

Initial Base Rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

***Prime Rate Notes***

If you purchase a Prime Rate Note, your Note will bear interest at a Base Rate equal to the Prime Rate as adjusted by the Spread or Spread Multiplier, if any, specified in the applicable Final Terms. The Prime Rate for each interest period will be the rate, for the relevant Interest Determination Date, published in H.15 under the heading "Bank Prime Loan". If the Prime Rate cannot be determined as described above, the following procedures will apply.

- If the rate described above does not appear in H.15 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 Prime Rate will be the rate, for the relevant Interest Determination Date, as published in H.15 daily update, or another recognized electronic source used for the purpose of displaying that rate, in each case, under the heading "Bank Prime Loan".

- If the rate described above 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, then the Prime Rate will be the arithmetic mean, as determined by the Calculation Agent, of the following rates as they appear on the Reuters Page US PRIME1: the rate of interest publicly announced by each bank appearing on that page as that bank's prime rate or base lending rate, as of 11:00 A.M., New York City time, on the relevant Interest Determination Date.

- If fewer than four of these rates appear on the Reuters Page US PRIME1, the Prime Rate will be the arithmetic mean of the prime rates or base lending rates, as of the close of business on the relevant Interest Determination Date, of three major banks in New York City selected by the Calculation Agent. For this purpose, the Calculation Agent will use rates quoted on the basis of the actual number of days in the year divided by a 360-day year.

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

***Treasury Rate Notes***

If you purchase a Treasury Rate Note, your Note will bear interest at a Base Rate equal to the Treasury Rate as adjusted by the Spread or Spread Multiplier, if any, specified in the applicable Final Terms.

"**Treasury Rate**" means the rate for the auction held on the Interest Determination Date of direct obligations of the United States (Treasury Bills) having the Index Maturity specified in the applicable Final Terms as that rate appears on Reuters Page US AUCTION10 or Reuters Page US AUCTION11 under the heading "INVEST RATE".

If the Treasury Rate cannot be determined in the manner described in the prior paragraph, the following procedures will apply:

- If the rate described above does not appear on either page by 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), the Treasury Rate will be the bond equivalent yield of the auction rate, for the relevant Interest Determination Date and for treasury bills of the kind described above, as announced by the U.S. Department of the Treasury.

- If the auction rate described in the prior paragraph is not so announced by 3:00 P.M., New York City time, on the relevant interest calculation date, or if no such auction is held for the relevant week, then the Treasury Rate will be the bond equivalent yield of the rate, for the relevant Interest Determination Date and for treasury bills having a remaining maturity closest to the specified Index Maturity, as published in H.15 under the heading "U.S. government securities/Treasury bills/secondary market".

- If the rate described in the prior paragraph does not appear in H.15 by 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), then the Treasury Rate will be the rate, for the relevant Interest Determination Date and for treasury bills having a remaining maturity closest to the specified Index Maturity, as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading "U.S. government securities/Treasury bills/secondary market".

- If the rate described in the prior paragraph does not appear in H.15 daily update, H.15 or another recognized electronic source by 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 Treasury Rate will be the bond equivalent yield of the arithmetic mean of the following secondary market bid rates for the issue of treasury bills with a remaining maturity closest to the specified Index Maturity: the rates bid as of approximately 3:30 P.M., New York City time, on the relevant Interest Determination Date, by three primary U.S. government securities dealers in New York City selected by the Calculation Agent.

- If fewer than three dealers selected by the Calculation Agent are quoting as described in the prior paragraph, the Treasury Rate in effect for the new interest period will be the Treasury 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.

***Business Day***

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

- for all Notes, is a Monday, Tuesday, Wednesday, Thursday or Friday that is not a day on which banking institutions in The City of New York, the City of Wellington, New Zealand, the City of Auckland, New Zealand or the City of London generally are authorized or obligated by law, regulation or executive order to close;

- if the Note is a LIBOR Note, is also a London business day;

- if the Note has a Specified Currency other than U.S. dollars or euros, is also a day on which banking institutions are not authorized or obligated by law, regulation or executive order to close in the principal financial center of the country issuing the Specified Currency;

- if the Note is a EURIBOR Note or has a Specified Currency of euros, or is a LIBOR Note for which the Index Currency is euros, is also a euro business day; and

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

***Special Rate Calculation Terms***

In this subsection entitled "-Interest rates", we use several terms that have special meanings relevant to calculating floating interest rates. We describe these terms as follows:

The term "**bond equivalent yield**" means a yield expressed as a percentage and calculated in accordance with the following formula:

$$\text{bond equivalent yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where

- "D" means the annual rate for Treasury Bills quoted on a bank discount basis and expressed as a decimal;

- "N" means 365 or 366, as the case may be; and

- "M" means the actual number of days in the applicable interest reset period.

The term "***Designated CMT Index Maturity***" means the Index Maturity for a CMT Rate Note and will be the original period to maturity of a U.S. Treasury security specified in the applicable Final Terms. If no such original maturity period is so specified, the designated CMT Index Maturity will be 2 years.

The term "***Designated CMT Reuters Page***" means the Reuters Page specified in the applicable Final Terms that displays treasury constant maturities as reported in H.15. If no Reuters Page is so specified, then the applicable page will be Reuters Page FEDCMT. If Reuters Page FEDCMT applies but the applicable Final Terms does not specify whether the weekly or monthly average applies, the weekly average will apply.

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

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

The term "***euro-zone***" means, at any time, the region comprised of the member states of the European Economic and Monetary Union that, as of that time, have adopted a single currency in accordance with the Treaty on European Union of February 1992.

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

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

The term "***index currency***" means, with respect to a LIBOR Note, the currency specified as such in the applicable Final Terms. The index currency may be U.S. dollars or any other currency, and will be U.S. dollars unless another currency is specified in the applicable Final Terms.

The term "***Index Maturity***" means, with respect to a Floating Rate Note, the period to maturity of the instrument or obligation on which the interest rate formula is based, as specified in the applicable Final Terms.

"***London business day***" means any day on which dealings in the relevant index currency are transacted in the London interbank market.

The term "***Money Market Yield***" means a yield expressed as a percentage and calculated in accordance with the following formula:

$$\text{money market yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where

- "D" means the annual rate for commercial paper quoted on a bank discount basis and expressed as a decimal; and

- "M" means the actual number of days in the relevant interest reset period.

The term "***principal financial center***" means (i) the capital city of the country issuing the Specified Currency in the applicable Note (which in the case of those countries whose currencies were replaced by the euro, will be Brussels, Belgium) or (ii) the capital city of the country to which the relevant index currency, if applicable, relates, except, in each case, with respect to United States dollars, euros, Australian dollars, Canadian dollars, New Zealand dollars, South African rand and Swiss francs, the principal financial center will be The City of New York, London (solely in the case of the relevant LIBOR index currency), Sydney, Toronto, Auckland, Johannesburg and Zurich, respectively.

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

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

"***Reuters Page EURIBOR01***" means the display on the Reuters Page designated as "EURIBOR01" or any replacement page or pages on which euro-zone interbank rates of major banks for euro are displayed.

"***Reuters Page FEDFUNDS1***" means the display on the Reuters Page designated as "FEDFUNDS1" or any replacement page or pages.

"***Reuters Page FEDCMT***" means the display on the Reuters Page designated as "FEDCMT" or any replacement page or pages.

"***Reuters Page FRBCMT***" means the display on the Reuters Page designated "FRBCMT" or any replacement page or pages.

"***Reuters Page US AUCTION10***" means the display on the Reuters Page designated as "US AUCTION10" or any replacement page or pages.

"***Reuters Page US AUCTION11***" means the display on the Reuters Page designated as "US AUCTION11" or any replacement page or pages.

"***Reuters Page US PRIME1***" means the display on the Reuters Page designated as "US PRIME1" or any replacement page or pages on which prime rates or base lending rates of major U.S. banks are displayed.

If, when we use the terms Designated CMT Reuters Page, Designated LIBOR Page, H.15, H.15 daily update, Reuters Page EURIBOR01, Reuters Page FEDFUNDS1, Reuters Page US AUCTION10, Reuters Page US AUCTION11 or Reuters Page US PRIME1, we refer to a particular heading or headings on any of those pages, those references include any successor or replacement heading or headings as determined by the Calculation Agent.

**Payment of additional amounts**

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

- to the extent that the relevant tax is New Zealand tax and is imposed on a Holder who is not a NRWT Holder (as defined herein);

- to the extent that the relevant tax is imposed or levied by virtue of the Holder, or the beneficial owner, of the Notes having some connection (whether past or present) with a relevant jurisdiction, other than mere receipt of such payment or being a Holder, or the beneficial owner, of the Notes;

- to the extent that the relevant tax is imposed or levied by virtue of the Holder, or the beneficial owner, of the Notes not complying with any statutory requirements or not presenting any form or certificate or not having made a declaration of non-residence in, or lack of connection with, a relevant jurisdiction or any similar claim for exemption, if the relevant Issuer or its agent has provided the Holder, or the beneficial owner, of the Notes with at least 60 days' prior written notice of an opportunity to comply with such statutory requirements or make a declaration or claim;

- to the extent that the relevant tax is imposed or levied by virtue of the Holder, or the beneficial owner, of the Notes having presented for payment more than 30 days after the date on which the payment in respect of the Notes first became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;

- to the extent that the relevant tax is imposed or levied by virtue of the Holder, or the beneficial owner, of the Notes having presented the Notes for payment in a relevant jurisdiction, unless the Notes could not have been presented for payment elsewhere; or

- to the extent any combination of the above applies.

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

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

(a) a Holder that holds the Notes for the purposes of a business that the Holder carries on in New Zealand through a fixed establishment in New Zealand; or

(b) a Holder that is a registered bank engaged in business in New Zealand through a fixed establishment in New Zealand and is not associated with the Issuer.

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

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

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

**Redemption and repayment**

Your Note will not be entitled to the benefit of any sinking fund, that is, we will not deposit money on a regular basis into any separate custodial account to repay your Note. In addition, we will not be entitled to redeem your Note before its stated maturity unless your Final Terms specifies a redemption commencement date. You will not be entitled to require us to buy your Note from you, before its stated maturity, unless your Final Terms specifies one or more repayment dates.

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

If your Final Terms specify a redemption commencement date, your Note will be redeemable at our option at any time on or after that date or at a specified time or times. If we redeem your Note, we will do so at the specified redemption price, together with interest accrued to the redemption date. If different prices are specified for different redemption periods, the price we pay will be the price that applies to the redemption period during which your Note is redeemed.

If your Final Terms specifies a repayment date, your Note will be repayable at the Holder's option on the specified repayment date at the specified repayment price, together with interest accrued to the repayment date.

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

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

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

### Redemption for taxation reasons

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

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

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

### Mergers and similar transactions

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

- if the successor entity in the transaction is not ANZ New Zealand or ANZNIL, as applicable, the successor entity must be organized as a corporation, partnership or trust and, unless the assumption occurs by operation of law, must expressly assume our obligations under the Notes and the Fiscal Agency Agreement with respect to the Notes. The successor entity may be organized under the laws of New Zealand, the United Kingdom, the United States or any State thereof, the District of Columbia or any other member country of the Organization for Economic Cooperation and Development;

- immediately after the transaction, no default under the Notes has occurred and is continuing. For this purpose, "default under the Notes" means an Event of Default with respect to the Notes or any event that would be an Event of Default with respect to the Notes if the requirements for giving us default notice and for our default having to continue for a specific period of time were disregarded. We describe these matters below under "— Default, remedies and waiver of default"; and

- in the case of the successor entity, if such entity is not organized and validly existing under the laws of New Zealand or the United Kingdom, such successor entity shall expressly agree:

    - to indemnify each holder of the Notes against any tax, assessment or governmental charge required to be withheld or deducted from any payment to such holder as a consequence of such consolidation, merger, conveyance, transfer or lease; and

    - that all payments pursuant to the Notes shall be made without withholding or deduction for, on account of, any tax of whatever nature imposed or levied on behalf of the jurisdiction of organization of such successor entity, or any political subdivision or taxing authority thereof or therein, unless such tax is required by such jurisdiction or any such subdivision or authority to be withheld or deducted, in which case such successor entity will pay such additional amounts in order that the net amounts received by the holders after such withholding or deduction will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, subject to the same exceptions as would apply with respect to the payment by ANZ New Zealand or ANZNIL of additional amounts in respect of the Notes (substituting the jurisdiction of organization of such successor entity for New Zealand or the United Kingdom). For the avoidance of doubt, any amounts to be paid on the Notes by such successor entity will be paid net of any deduction or withholding imposed or required pursuant to Sections 1471 through 1474 of the Code, i.e., the Foreign Account Tax Compliance Act, or FATCA, any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code, and no additional amounts will be required to be paid on account of any such deduction or withholding.

If the conditions described above are satisfied with respect to the Notes, and we deliver an officer's certificate and an opinion of counsel to that effect, we will not need to obtain the approval of the holders of the Notes in order to merge or consolidate or to sell our assets. Also, these conditions will apply only if we wish to merge or consolidate with another entity or sell our assets substantially as an entirety to another entity. We will not need to satisfy these conditions if we enter into other types of transactions, including any transaction in which we acquire the stock or assets of another entity, any transaction that involves a change of control of ANZ New Zealand or ANZNIL, as applicable, but in which we do not merge or consolidate and any transaction in which we sell less than substantially all of our assets.

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

**Covenant defeasance**

We will specify in the relevant Final Terms whether or not the provisions for covenant defeasance described below apply to your Note.

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

- We must deposit in trust for the benefit of all direct Holders of the Notes a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash, in the written opinion of a nationally recognized firm of independent public accountants to make interest, principal and any other payments on the Notes on their various due dates.

- We must deliver to the defeasance trustee, who may be the Fiscal Agent, a legal opinion of counsel confirming that under current U.S. federal income tax law we may make the above deposit without causing the Holders of Notes to be taxed on the Notes any differently than if we did not make the deposit and just repaid the Notes ourselves.

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

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

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

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

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

If we accomplish covenant defeasance on your Note, you can still look to us for repayment of your Note in the event of any shortfall in the trust deposit. You should note, however, that if one of the remaining events of default occurred, such as our bankruptcy, and your Note became immediately due and payable, there may be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

**Default, remedies and waiver of default**

You will have special rights if an Event of Default with respect to your Note occurs and is continuing, as described in this subsection.

***Events of Default***

When we refer to an Event of Default with respect to the Notes, we mean any of the following:

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

**Remedies if an Event of Default occurs**

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

***Waiver of default***

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

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

**Modification of the Fiscal Agency Agreement and waiver of covenants**

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

***Changes requiring each Holder's approval***

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

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

- change any provision in a Note with respect to redemption at the Holders' option in any manner adverse to the interests of any Holder of the Notes.

***Changes not requiring approval***

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

***Changes requiring majority approval***

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

- the written consent of the Holders of at least 50% of the aggregate principal amount of the Notes at the time outstanding; or

- the adoption of a resolution at a meeting at which a quorum of Holders is present by 50% of the aggregate principal amount of the Notes then outstanding represented at the meeting.

The same 50% approval would be required for us to obtain a waiver of any of our covenants in the Fiscal Agency Agreement. Our covenants include the promises we make about merging, which we describe above under "— Mergers and similar transactions". If the Holders approve a waiver of a covenant, we will not have to comply with it.

The quorum at any meeting called to adopt a resolution will be persons holding or representing a majority in aggregate principal amount of the Notes at the time outstanding and, at any reconvened meeting adjourned for lack of a quorum, 25% of the aggregate principal amount of the Notes outstanding. For purposes of determining whether Holders of the aggregate principal amount of Notes required for any action or vote, or for any quorum, have taken the action or vote, or constitute a quorum, the principal amount of any particular Note may differ from its principal amount at stated maturity but will not exceed its stated face amount upon original issuance.

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

**Special rules for action by Holders**

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

***Only outstanding Notes are eligible***

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

- if it has been surrendered for cancellation;

- if we have deposited or set aside, in trust for its Holder, money for its payment or redemption;

- if we have fully defeased it as described above under "— Covenant defeasance"; or

- if we or one of our affiliates, such as ANZBGL, is the owner.

***Eligible principal amount of some Notes***

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

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

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

**Form, exchange and transfer of Notes**

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

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

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

Holders may exchange or transfer their Notes at the office of the Fiscal Agent. They may also replace lost, stolen, destroyed or mutilated Notes at that office. We have appointed the Fiscal Agent to act as our agent for registering Notes in the names of Holders and transferring and replacing Notes. We may appoint another entity to perform these functions or perform them ourselves.

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

If we have designated additional transfer agents for your Note, they will be named in your Final Terms. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

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

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

**Payment mechanics for Notes**

***Who receives payment?***

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

### *Payment and record dates for interest*

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

### *How we will make payments due in U.S. dollars*

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

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

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

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

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

### *How we will make payments due in other currencies*

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

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

If you are an indirect owner of Global Notes denominated in a Specified Currency other than U.S. dollars and if you have the right to elect to receive payments in that other currency and do so elect, you must notify the participant through which your interest in the Global Note is held of your election:

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

Your participant must, in turn, notify DTC of your election on or before the third DTC business day after that Regular Record Date, in the case of a payment of interest, and on or before the 12th DTC business day before the stated maturity, or on the redemption or repayment date if your Note is redeemed or repaid earlier, in the case of a payment of principal or any premium.

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

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

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

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

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

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

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

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

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

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

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

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

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

**Additional information about LIBOR and EURIBOR**

In July 2017, the United Kingdom's FCA committed to begin planning a transition away from LIBOR to alternative reference rates that are based on actual transactions, such as SONIA (the Sterling Over Night Index Average). The announcement indicates that the continuation of LIBOR in its current form is not guaranteed after 2021. At this time, it is not possible to predict the effect of the FCA announcement, any changes in the methods pursuant to which LIBOR rates are determined and any other reforms to LIBOR, including to the rules promulgated by the FCA in relation thereto, that will be enacted in the United Kingdom and elsewhere. Additionally, EURIBOR and other benchmark indices are the subject of recent national, international and other regulatory guidance and proposals for reform. For more information, see "Risk Factors—Risks relating to the Notes—Uncertainty relating to the LIBOR calculation process, including the potential phasing out of LIBOR after 2021, and proposals to reform EURIBOR and other benchmark indices may adversely affect the value of the Notes".

**Payment when offices are closed**

If any payment is due on a Note on a day that is not a business day, we will make the payment on the next day that is a business day. Payments postponed to the next business day in this situation will be treated under the Fiscal Agency Agreement as if they were made on the original due date. Postponement of this kind will not result in a default under any Note or the Fiscal Agency Agreement. However, if any interest payment date, other than the one that falls on the maturity date for a EURIBOR Note or a LIBOR Note would otherwise fall on a day that is not a business day and the next business day falls in the next calendar month, then the interest payment date will be advanced to the next preceding day that is a business day. The term business day has a special meaning, which we describe above under "—Interest rates—Floating Rate Notes—Special rate calculation terms".

**Paying Agents**

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

**Unclaimed payments**

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

**Notices**

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

**Our relationship with the Fiscal Agent**

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

### Prescription

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

### Governing law

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

## Legal Ownership and Book-Entry Issuance

In this section, we describe special considerations that will apply to Notes issued in global-i.e., book-entry-form. First we describe the difference between legal ownership and indirect ownership of Notes. Then we describe special provisions that apply to Global Notes.

### Who is the legal owner of a registered Note?

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

#### *Book-entry owners*

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

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

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

#### *Street name owners*

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

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

#### *Legal Holders*

Our obligations, as well as the obligations of the Fiscal Agent under the Fiscal Agency Agreement and the obligations, if any, of any third parties employed by us or any other agent, run only to the Holders of the Notes. We do not have obligations to investors who hold beneficial interests in Global Notes, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect owner of a Note or has no choice because we are issuing the Notes only in global form.

For example, once we make a payment or give a notice to the Holder, we have no further responsibility for that payment or notice even if that Holder is required, under agreements with Depositary participants or customers or by law, to pass it along to the indirect owners but does not do so. Similarly, if we want to obtain the approval of the Holders for any purpose—*e.g.*, to amend the Fiscal Agency Agreement or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of the Fiscal Agency

Agreement—we would seek the approval only from the Holders, and not the indirect owners, of the relevant Notes. Whether and how the Holders contact the indirect owners is up to the Holders.

When we refer to "you" in this Offering Memorandum, we mean those who invest in the Notes being offered by this Offering Memorandum, whether they are the Holders or only indirect owners of those Notes. When we refer to "your Notes" in this Offering Memorandum, we mean the Notes in which you will hold a direct or indirect interest.

### *Special considerations for indirect owners*

If you hold Notes through a bank, broker or other financial institution, either in book-entry form or in street name, you should check with your own institution to find out:

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

### What is a Global Note?

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

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

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

### Special considerations for Global Notes

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

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

- an investor cannot cause the Notes to be registered in his or her own name, and cannot obtain non-global certificates for his or her interest in the Notes, except in the special situations we describe below;

- an investor will be an indirect holder and must look to his or her own bank or broker for payments on the Notes and protection of his or her legal rights relating to the Notes, as we describe above under "—Who is the legal owner of a registered Note?";

- an investor may not be able to sell interests in the Notes to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form;

- an investor may not be able to pledge his or her interest in a Global Note in circumstances where certificates representing the Notes must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;

- the Depositary's policies will govern payments, deliveries, transfers, exchanges, notices and other matters relating to an investor's interest in a Global Note, and those policies may change from time to time. We and the Fiscal Agent will have no responsibility for any aspect of the Depositary's policies, actions or records of ownership interests in a Global Note. We and the Fiscal Agent also do not supervise the Depositary in any way;

- the Depositary will require that those who purchase and sell interests in a Global Note within its book-entry system use immediately available funds and your broker or bank may require you to do so as well; and

- financial institutions that participate in the Depositary's book-entry system and through which an investor holds its interest in the Global Notes, directly or indirectly, may also have their own policies affecting payments, deliveries, transfers, exchanges, notices and other matters relating to the Notes, and those policies may change from time to time. For example, if you hold an interest in a Global Note through Euroclear or Clearstream, Luxembourg when DTC is the Depositary, Euroclear or Clearstream, Luxembourg, as applicable, will require those who purchase and sell interests in that Global Note through them to use immediately available funds and comply with other policies and procedures, including deadlines for giving instructions as to transactions that are to be effected on a particular day. There may be more than one financial intermediary in the chain of ownership for an investor. We do not monitor and are not responsible for the policies or actions or records of ownership interests of any of those intermediaries.

***Delivery and form***

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

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

***Exchanges among the Global Notes***

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

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

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

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

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

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

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

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

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

**Considerations relating to DTC, Euroclear and Clearstream, Luxembourg**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Considerations Relating to Notes Denominated or Payable in or Linked to a Non-U.S. dollar Currency

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

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

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

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

**Changes in currency exchange rates can be volatile and unpredictable**

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

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

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

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

### Non-U.S. dollar Notes may permit us to make payments in U.S. dollars or delay payment if we are unable to obtain the Specified Currency

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

### We will not adjust non-U.S. dollar Notes to compensate for changes in currency exchange rates

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

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

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

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

### Information about exchange rates may not be indicative of future performance

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

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

# Taxes

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

## United States federal income taxation

This section describes the material United States federal income tax consequences of owning the Notes we are offering. It applies to you only if you acquire Notes in the offering and you hold your Notes as capital assets for tax purposes. This section does not describe all of the tax consequences that may apply to you if you are a member of a class of Holders subject to special rules, such as:

- a financial institution,
- a dealer in securities or currencies,
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- a bank,
- a life insurance company,
- a tax-exempt organization,
- a person that owns Notes that are a hedge or that are hedged against interest rate or currency risks,
- a person subject to the alternative minimum tax,
- a person that owns Notes as part of a straddle or conversion transaction for tax purposes, or
- A person that purchases or sells Notes as part of a wash sale for tax purposes, or
- a United States Holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

This section deals only with Notes that are due to mature 30 years or less from the date on which they are issued. The United States federal income tax consequences of owning Notes that are due to mature more than 30 years from their date of issue will be discussed in the relevant Final Terms. 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 a partnership holds the Notes, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the Notes should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the Notes.

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

Please consult your own tax advisor concerning the consequences of owning these Notes in your particular circumstances under the Code and the laws of any other taxing jurisdiction.

### *United States Holders*

This subsection describes the tax consequences to a United States Holder. You are a United States Holder if you are a beneficial owner of a Note and you are:

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

If you are not a United States Holder, this subsection does not apply to you and you should refer to "− United States alien 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", you will be taxed on any interest on your Note, whether payable in U.S. dollars or a foreign currency, including a composite currency or basket of currencies, as ordinary income at the time you receive the interest or when it accrues, depending on your method of accounting for United States tax purposes.

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

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

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

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

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

***Original issue discount***

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

In general, your Note is not a discount Note if the amount by which its stated redemption price at maturity exceeds its issue price is less than the *de minimis* amount of ¼ of 1% of its stated redemption price at maturity multiplied by the number of complete years to its maturity. Your Note will have *de minimis* original issue discount if the amount of the excess is less than the *de minimis* amount. If your Note has *de minimis* original issue discount, you must include the *de minimis* amount in income as stated principal payments are made on the Note, unless you make the election described below under "−Election to treat all interest as original issue discount". You can determine the includible amount with respect to each such payment by multiplying the total amount of your Note's *de minimis* original issue discount by a fraction equal to:

- the amount of the principal payment made

divided by:

- the stated principal amount of the Note.

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

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

- multiplying your discount Note's adjusted issue price at the beginning of the accrual period by your Note's yield to maturity, and then

- subtracting from this figure the sum of the payments of qualified stated interest on your Note allocable to the accrual period.

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

- adding your discount Note's issue price and any accrued OID for each prior accrual period, and then

- subtracting any payments previously made on your discount Note that were not qualified stated interest payments.

If an interval between payments of qualified stated interest on your discount Note contains more than one accrual period, then, when you determine the amount of OID allocable to an accrual period, you must allocate the amount of qualified stated interest payable at the end of the interval, including any qualified stated interest that is payable on the first day of the accrual period immediately following the interval, pro rata to each accrual period in the interval based on their relative lengths. In addition, you must increase the adjusted issue price at the beginning of each accrual period in the interval by the amount of any qualified stated interest that has accrued prior to the first day of the accrual period but that is not payable until the end of the interval. You may compute the amount of OID allocable to an initial short accrual period by using any reasonable method if all other accrual periods, other than a final short accrual period, are of equal length.

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

- the amount payable at the maturity of your Note, other than any payment of qualified stated interest, and

- your Note's adjusted issue price as of the beginning of the final accrual period.

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

- the excess of your adjusted basis in the Note immediately after purchase over the adjusted issue price of the Note

divided by:

- the excess of the sum of all amounts payable, other than qualified stated interest, on the Note after the purchase date over the Note's adjusted issue price.

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

- a portion of the initial purchase price of your Note is attributable to pre-issuance accrued interest,

- the first stated interest payment on your Note is to be made within one year of your Note's issue date, and

- the payment will equal or exceed the amount of pre-issuance accrued interest.

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

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

- the timing and amounts of the payments that comprise each payment schedule are known as of the issue date and

- one of such schedules is significantly more likely than not to occur.

If there is no single payment schedule that is significantly more likely than not to occur, other than because of a mandatory sinking fund, you must include income on your Note in accordance with the general rules that govern contingent payment obligations.

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

- in the case of an option or options that we may exercise, we will be deemed to exercise or not exercise an option or combination of options in the manner that minimizes the yield on your Note, and

- in the case of an option or options that you may exercise, you will be deemed to exercise or not exercise an option or combination of options in the manner that maximizes the yield on your Note.

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

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

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

If you make this election for your Note, then, when you apply the constant-yield method:

- the issue price of your Note will equal your cost,

- the issue date of your Note will be the date you acquired it, and

- no payments on your Note will be treated as payments of qualified stated interest.

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

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

- your Note's issue price does not exceed the total noncontingent principal payments by more than the lesser of:

    1. .015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date, or

    2. 15% of the total noncontingent principal payments; and

- your Note provides for stated interest, compounded or paid at least annually, only at:

    1. one or more qualified floating rates,

    2. a single fixed rate and one or more qualified floating rates,

    3. a single objective rate, or

    4. a single fixed rate and a single objective rate that is a qualified inverse floating rate; and

- the value of any variable rate on any date during the term of your Note is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

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

- variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which your Note is denominated; or

- the rate is equal to such a rate either:

    1. multiplied by a fixed multiple that is greater than 0.65 but not more than 1.35 or

    2. multiplied by a fixed multiple greater than 0.65 but not more than 1.35, and then increased or decreased by a fixed rate.

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

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

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

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

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

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

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

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

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

Commercial Paper Rate Notes, Prime Rate Notes, LIBOR Notes, EURIBOR Notes, Treasury Rate Notes, CMT Rate Notes, CD Rate Notes and Federal Funds Rate Notes generally will be treated as variable rate Notes under these rules.

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

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

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

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

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

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

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

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

***Market discount***

You will be treated as if you purchased your Note, other than a short-term Note, at a market discount, and your Note will be a market discount Note if:

- you purchase your Note for less than its issue price as determined above under "−Original issue discount−General" and

- the difference between the Note's stated redemption price at maturity or, in the case of a discount Note, the Note's revised issue price, and the price you paid for your Note is equal to or greater than 1/4 of 1% of your Note's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note's maturity. To determine the revised issue price of your Note for these purposes, you generally add any OID that has accrued on your Note to its issue price.

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

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

You will accrue market discount on your market discount Note on a straight-line basis unless you elect to accrue market discount using a constant-yield method. If you make this election, it will apply only to the Note with respect to which it is made and you may not revoke it.

***Notes purchased at a premium***

If you purchase your Note for an amount in excess of its principal amount (or, in the case of a discount Note, in excess of the sum of all amounts payable on the Note after the acquisition date (other than payments of qualified stated interest)), you may elect to treat the excess as amortizable bond premium. If you make this election, you will reduce the amount required to be included in your income each accrual period with respect to interest on your Note by the amount of amortizable bond premium allocable to that accrual period, based on your Note's yield to maturity. If your Note is denominated in, or determined by reference to, a foreign currency, you will compute your amortizable bond premium in units of the foreign currency and your amortizable bond premium will reduce your interest income in units of the foreign currency. Gain or loss recognized that is attributable to changes in exchange rates between the time your amortized bond premium offsets interest income and the time of the acquisition of your Note is generally taxable as ordinary income or loss. If you make an election to amortize bond premium, it will apply to all debt instruments, other than debt instruments the interest on which is excludible from gross income, that you hold at the beginning of the first taxable year to which the election applies or that you thereafter acquire, and you may not revoke it without the consent of the IRS. See also "−Original issue discount−Election to treat all interest as original issue discount".

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

***Purchase, sale and retirement of the Notes***

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

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

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

You will generally recognize gain or loss on the sale or retirement of your Note equal to the difference between the amount you realize on the sale or retirement and your adjusted tax basis in your Note. If your Note is sold or retired for an amount in foreign currency, the amount you realize will be the U.S. dollar value of such amount on the date the Note is disposed of or retired, except that in the case of a Note that is traded on an established securities market, as defined in the applicable Treasury regulations, a cash basis taxpayer, or an accrual basis taxpayer that so elects, will determine the amount realized based on the U.S. dollar value of the foreign currency on the settlement date of the sale.

You will recognize capital gain or loss when you sell or retire your Note, except to the extent:

- described above under "−Original issue discount-Short-term Notes" or "−Market discount",
- attributable to accrued but unpaid interest, or
- attributable to changes in exchange rates as described below.

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

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

***Exchange of amounts in other than U.S. dollars***

If you receive foreign currency as interest on your Note or on the sale or retirement of your Note, your tax basis in the foreign currency will equal its U.S. dollar value when the interest is received or at the time of the sale or retirement. If you purchase foreign currency, you generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of your purchase. If you sell or dispose of a foreign currency, including if you use it to purchase Notes or exchange it for U.S. dollars, any gain or loss recognized generally will be ordinary income or loss.

***Medicare Tax***

A United States Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) the United States Holder's "net investment income" (or "undistributed net investment income" in the case of an estate or trust) for the relevant taxable year and (2) the excess of the United States Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between $125,000 and $250,000, depending on the individual's circumstances). A United States Holder's net investment income generally includes its interest income and its net gains from the disposition of Notes, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a United States Holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the Notes.

***Contingent Payment Obligations***

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

***Treasury Regulations Requiring Disclosure of Reportable Transactions***

U.S. Treasury regulations require United States taxpayers to report certain transactions that give rise to a loss in excess of certain thresholds (a "**Reportable Transaction**"). Under these regulations, if the Notes are denominated in a foreign currency, a United States Holder (or a United States alien Holder that holds the Notes in connection with a U.S. trade or business) that recognizes a loss with respect to the Notes that is characterized as an ordinary loss due to changes in currency exchange rates (under any of the rules discussed above) would be required to report the loss on IRS Form 8886 (Reportable Transaction Statement) if the loss exceeds the thresholds set forth in the regulations. For individuals and trusts, this loss threshold is $50,000 in any single taxable year. For other types of taxpayers and other types of losses, the thresholds are higher. You should consult with your tax advisor regarding any tax filing and reporting obligations that may apply in connection with acquiring, owning and disposing of Notes.

***Information with Respect to Foreign Financial Assets***

Owners of "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. Holders are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of the Notes.

***FATCA Withholding***

Certain non-U.S. financial institutions must comply with information reporting requirements or certification requirements in respect of their direct and indirect United States shareholders and/or United States accountholders to avoid becoming subject to withholding on certain payments, either by reporting such information directly to the IRS or, in some cases, such as in the case of New Zealand institutions and branches, by reporting such information to their local revenue authority for it to forward to the IRS. The Issuers and other non-U.S. financial institutions may accordingly be required to report information regarding the Holder of Notes and to withhold on a portion of payments under the Notes to certain Holders that fail to comply with the relevant information reporting requirements (or hold Notes directly or indirectly through certain non-compliant intermediaries). However, such withholding would generally not apply to payments made before January 1, 2019. Moreover, such withholding would only apply to Notes issued at least six months after the date on which final regulations implementing such rules are enacted. Holders are urged to consult their own tax advisors and any banks or brokers through which they will hold Notes as to the consequences (if any) of these rules to them.

***United States alien Holders***

This subsection describes the tax consequences to a United States alien Holder. You are a United States alien Holder if you are a beneficial owner of a Note and you are, for United States federal income tax purposes:

- a nonresident alien individual,
- a foreign corporation, or
- an estate or trust that in either case is not subject to United States federal income tax on a net income basis on income or gain from a Note.

If you are a United States Holder, this subsection does not apply to you.

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

- you are an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the Code, or
- you both
    - have an office or other fixed place of business in the United States to which the interest is attributable and
    - derive the interest in the active conduct of a banking, financing or similar business within the United States.

***Purchase, sale, retirement and other disposition of the Notes***

If you are a United States alien Holder of a Note, you generally will not be subject to United States federal income tax on gain realized on the sale, exchange or retirement of a Note unless:

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

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

***Backup withholding and information reporting***

In general, if you are a noncorporate United States Holder, we and other payors are required to report to the IRS all payments of principal, any premium and interest on your Note, and the accrual of OID on a discount Note. In addition, we and other payors are required to report to the IRS any payment of proceeds of the sale of your Note before maturity within the United States. Additionally, backup withholding would apply to any payments if you fail to provide an accurate taxpayer identification number, or (in the case of interest payments) you are notified by the IRS that you have failed to report all interest and dividends required to be shown on your federal income tax returns.

If you are a United States alien Holder, you are generally exempt from backup withholding and information reporting requirements with respect to payments of principal and interest made to you outside the United States by us or another non-United States payor. You are also generally exempt from backup withholding and information reporting requirements in respect of payments of principal and interest made within the United

States and the payment of the proceeds from the sale of a Note effected at a United States office of a broker, as long as either (i) the payor or broker does not have actual knowledge or reason to know that you are a United States person and you have furnished a valid IRS Form W-8 or other documentation upon which the payor or broker may rely to treat the payments as made to a non-United States person, or (ii) you otherwise establish an exemption.

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

(i) the broker has certain connections to the United States,

(ii) the proceeds or confirmation are transferred or mailed to an account or address maintained by you in the United States, or

(iii) the sale has certain other specified connections with the United States as provided in U.S. Treasury regulations,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption.

In addition, certain foreign brokers may be required to report the amount of gross proceeds from the sale or other disposition of Notes under FATCA if you are, or are presumed to be, a United States person.

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

### New Zealand taxation

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

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

- associated;
- fixed establishment;
- registered bank; and
- resident in New Zealand,

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

#### *Non-resident withholding tax*

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

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

(a) a Holder that holds the Notes for the purposes of a business that the Holder carries on in New Zealand through a fixed establishment in New Zealand; or

(b) a Holder that is a registered bank engaged in business in New Zealand through a fixed establishment in New Zealand and is not associated with the Issuer.

***Resident withholding tax***

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

(a) the Holder is not a NRWT Holder ("**RWT Holder**"); and

(b) at the time of such payment the RWT Holder does not hold a valid certificate of exemption for New Zealand resident withholding tax purposes.

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

(a) must notify the Issuer, the Guarantor or any Paying Agent, as the case may be, that the RWT Holder is the Holder of a Note; and

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

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

***Other taxes***

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

**United Kingdom taxation**

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

***UK withholding tax on UK source interest***

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

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

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

***Payments by Guarantor***

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

***Other rules relating to United Kingdom withholding tax***

The Notes may be issued at an issue price of less than 100% of their principal amount. Any discount element on such Notes will not, under current United Kingdom practice, be treated as interest for United Kingdom withholding tax purposes. On that basis, discounts will not be subject to any United Kingdom withholding tax, pursuant to the provisions mentioned above in "UK withholding tax on UK source interest".

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

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

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

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

***UK stamp duties***

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

(a) a conversion right or rights to acquire other shares or securities;

(b) a right to interest the amount of which exceeds a reasonable commercial return on the nominal amount of the capital;

(c) a right to interest, the amount of which falls or has fallen to be determined to any extent by reference to results of, or of any part of, a business or to the value of any property; or

(d) a right on repayment to an amount which exceeds the nominal amount of capital and is not reasonably comparable with what is generally repayable (in respect of a similar nominal amount of capital) under the terms of issue of loan capital listed in the Official List of the London Stock Exchange.

For Notes that do contain or have contained such a term then (assuming that any register relating to the Notes is kept outside the United Kingdom), no stamp duty reserve tax arises on any agreement to transfer such Notes unless the Notes give the Noteholders a right to allotments of or to subscribe for, or an option to acquire, or an interest in (or in dividends or other rights arising out of) stocks, shares or certain types of loan capital in a company which are: (i) interests in a United Kingdom incorporated company; (ii) which are registered in a register kept in the United Kingdom; or (iii) are shares and are "paired" (as defined in section 99(6B) of the Finance Act 1986) with shares issued by a United Kingdom incorporated company.

**General**

Neither ANZ New Zealand nor ANZNIL nor any of the Agents makes any comment about the treatment for taxation purposes of payment or receipts in respect of the Notes. Each investor contemplating acquiring Notes is advised to consult a professional adviser in connection with the consequences relating to the acquisition, retention and disposition of Notes.

## Employee Retirement Income Security Act

A fiduciary of a pension, profit-sharing or other employee benefit plan (a "**plan**") subject to the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), should consider the fiduciary standards of ERISA in the context of the plan's particular circumstances before authorizing an investment in the Notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the plan, and whether the investment would involve a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Section 406 of ERISA and Section 4975 of the Code prohibit plans, as well as individual retirement accounts and Keogh plans subject to Section 4975 of the Code (also "**plans**"), from engaging in certain transactions involving "plan assets" with persons who are "parties in interest" under ERISA or "disqualified persons" under the Code ("**parties in interest**") with respect to the plan. A violation of these prohibited transaction rules may result in civil penalties or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Certain employee benefit plans and arrangements including those that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and foreign plans (as described in Section 4(b)(4) of ERISA) ("**non-ERISA arrangements**") are not subject to the requirements of ERISA or Section 4975 of the Code but may be subject to similar provisions under applicable federal, state, local, foreign or other regulations, rules or laws ("**similar laws**").

The acquisition of the Notes by a plan with respect to which we or certain of our affiliates is or becomes a party in interest may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code, unless those Notes are acquired pursuant to and in accordance with an applicable exemption. Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of securities where neither ANZ nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of the plan involved in the transaction and the plan pays no more and receives no less than "adequate consideration" in connection with the transaction (the "**service provider exemption**"). The U.S. Department of Labor has also issued five prohibited transaction class exemptions, or "**PTCEs**", that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the Notes. These exemptions are:

- PTCE 84-14, an exemption for certain transactions determined or effected by independent qualified professional asset managers;
- PTCE 90-1, an exemption for certain transactions involving insurance company pooled separate accounts;
- PTCE 91-38, an exemption for certain transactions involving bank collective investment funds;
- PTCE 95-60, an exemption for transactions involving certain insurance company general accounts; and
- PTCE 96-23, an exemption for plan asset transactions managed by in-house asset managers.

Any purchaser or holder of Notes or any interest therein will be deemed to have represented by its purchase and holding of the Notes that it either (1) is not a plan and is not purchasing those Notes on behalf of or with "plan assets" of any plan or (2) with respect to the purchase or holding is eligible for the exemptive relief available under any of the PTCEs listed above, the service provider exemption or another applicable exemption. In addition, any purchaser or holder of Notes or any interest therein which is a non-ERISA arrangement will be deemed to have represented by its purchase or holding of the Notes that its purchase and holding will not constitute or result in a non-exempt violation of the provisions of any similar law.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing Notes on behalf of or with "plan assets" of any plan or non-ERISA arrangement consult with their counsel regarding the availability of exemptive relief under any of the PTCEs listed above, the service provider exemption or any other applicable exemption, or the potential consequences of any purchase or holding under similar laws, as applicable.

None of the Transaction Parties will act as a fiduciary to any such plan with respect to the plan's decision to invest in a Note, and none of the Transaction Parties is undertaking to provide impartial investment advice or to give advice in a fiduciary capacity in connection with any plan's acquisition of a Note from a Transaction Party. Each fiduciary or other person with investment responsibilities over the assets of a plan considering an investment in a Note must carefully consider the above factors before making an investment.

In addition, the Plan Fiduciary making the decision to acquire a Note on behalf of a plan from a Transaction Party will be deemed to have represented and warranted that (1) none of the Transaction Parties has provided or will provide advice with respect to the acquisition of a Note by the plan, other than to the Plan Fiduciary which is independent of the Transaction Parties, and the Plan Fiduciary either: (a) is a bank as defined in Section 202 of the Advisers Act, or similar institution that is regulated and supervised and subject to periodic examination by a state or federal agency; (b) is an insurance carrier which is qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of assets of a plan; (c) is an investment adviser registered under the Advisers Act, or, if not registered as an investment adviser under the Advisers Act by reason of paragraph (1) of Section 203a of the Advisers Act, is registered as an investment adviser under the laws of the state in which it maintains its principal office and place of business; (d) is a broker-dealer registered under the Exchange Act; or (e) has, and at all times during the plan's holding of a Note will have, total assets of at least US$50,000,000 under its management or control (provided that this clause (e) shall not be satisfied if the Plan Fiduciary is either (i) the owner or a relative of the owner of the individual retirement account that is acquiring a Note, or (ii) a participant or beneficiary of the plan acquiring a Note in such capacity); (2) the Plan Fiduciary is capable of evaluating investment risks independently, both in general and with respect to particular transactions and investment strategies, including the acquisition of a Note by the plan; (3) the Plan Fiduciary is a "fiduciary" with respect to the plan within the meaning of Section 3(21) of ERISA, Section 4975 of the Code, or both, and is responsible for exercising independent judgment in evaluating the plan's acquisition of a Note; (4) none of the Transaction Parties has exercised any authority to cause the plan to acquire a Note or to negotiate the terms of such acquisition; (5) none of the Transaction Parties receives a fee or other compensation from the plan or the Plan Fiduciary for the provision of investment advice in connection with the decision to acquire a Note; and (6) the Plan Fiduciary has been informed by the Transaction Parties: (a) (i) that none of the Transaction Parties is undertaking to provide impartial investment advice or to give advice in a fiduciary capacity, and (ii) that no such entity has given investment advice or otherwise made a recommendation, in connection with the plan's acquisition of a Note (other than advice, if any, given by a Transaction Party to an independent Plan Fiduciary that meets the requirements of clause (1) above); and (b) of the existence and nature of the Transaction Parties' financial interests in the plan's acquisition of a Note. The above representations are intended to comply with the U.S. Department of Labor's Reg. Sections 29 C.F.R. 2510.3-21(a) and (c)(1) as promulgated on April 8, 2016 (81 Fed. Reg. 20,997). If these regulations are revoked, repealed or no longer effective, these representations shall be deemed to be no longer in effect.

If you are an insurance company or the fiduciary of a pension plan or an employee benefit plan, and propose to invest in Notes, you should consult your legal counsel.

## Plan of Distribution

The Notes are being offered on a periodic basis for sale by the Issuers through J.P. Morgan Securities LLC, ANZ Securities, Inc., Barclays Capital Inc., Citigroup Global Markets Inc., Deutsche Bank Securities Inc., Goldman Sachs & Co. LLC, HSBC Securities (USA) Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC, RBC Capital Markets, LLC and Wells Fargo Securities, LLC and each agent appointed from time to time by the Issuers under and in accordance with the terms of the Distribution Agreement (the "**Agents**"), each of which has agreed to use its reasonable best efforts to solicit offers to purchase the Notes. The applicable Issuer will pay the applicable Agent a commission which will equal the percentage of the principal amount of any such Note sold through such Agent set forth in the relevant Final Terms. An Issuer may also sell Notes to an Agent, as principal, at a discount from the principal amount thereof, and such Agent may later resell such Notes to investors and other purchasers at varying prices related to prevailing market prices at the time of sale as determined by such Agent. An Issuer may also sell Notes directly to, and may solicit and accept offers to purchase directly from, investors on its own behalf in those jurisdictions where it is authorized to do so. The Notes will be offered in accordance with the provisions of the Distribution Agreement.

In addition, the Agents may offer the Notes they have purchased as principal to other Agents. The Agents may sell Notes to any Agent at a discount. Unless otherwise indicated, any Note sold to an Agent as principal will be purchased by such Agent at a price equal to 100% of the principal amount thereof less a percentage equal to the commission applicable to any agency sale of a Note of identical term, and may be resold by such Agent to investors and other purchasers from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale or may be resold to certain dealers as described above. After the initial offering of Notes to be resold to investors and other purchasers on a fixed offering price basis, the offering price, concession and discount may be changed.

Each Issuer reserves the right to withdraw, cancel or modify the offer made hereby without notice and may reject orders in whole or in part whether placed directly with such Issuer or through an Agent. Each Agent will have the right, in its discretion reasonably exercised, to reject any offer to purchase Notes received by it, in whole or in part.

In connection with an offering of Notes purchased by one or more Agents as principal on a fixed offering price basis, such Agent(s) will be permitted to over-allot or engage in transactions that stabilize the price of Notes. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of Notes. If the Agent creates or the Agents create, as the case may be, a short position in Notes, that is, if it sells or they sell Notes in an aggregate principal amount exceeding that set forth in the relevant Final Terms, such Agent(s) may reduce that short position by purchasing Notes in the open market. In general, purchase of Notes for the purpose of stabilization or to reduce a short position could cause the price of Notes to be higher than it might be in the absence of such purchases. Such stabilization if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilization, if any, shall be in compliance with all laws.

None of the Issuers, ANZ New Zealand (in the case of ANZNIL Notes) or any of the Agents makes any representation or prediction as to the direction or magnitude of any effect that the transactions described in the immediately preceding paragraph may have on the price of Notes. In addition, none of the Issuers, ANZ New Zealand (in the case of ANZNIL Notes) or any of the Agents make any representation that the Agents will engage in any such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Agents may from time to time purchase and sell Notes in the secondary market, but they are not obligated to do so, and there can be no assurance that there will be a secondary market for the Notes or liquidity in the secondary market if one develops. From time to time, the Agents may make a market in the Notes.

The Issuers have agreed to indemnify the several Agents against and to make contributions relating to certain liabilities, including liabilities under the Securities Act. The Agents and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The Agents may engage in transactions with, or perform services for, the Issuers in the ordinary course of business.

Some of the Agents or their affiliates have, directly or indirectly, performed investment and/or commercial banking or financial advisory services for the Issuers or their affiliates, for which they may have received customary fees and commissions, and they expect to provide these services to the Issuers and their affiliates in the future, for which they may also receive customary fees and commissions. In the ordinary course of their various business activities, the Agents and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and instruments of the Issuers. If any of the Agents or their affiliates have a lending relationship with us, certain of those Agents or their affiliates routinely hedge, and certain other of those Agents or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these Agents and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The Agents and their respective affiliates may also make investment recommendations and publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

### United States

The Notes are not being registered under the Securities Act in reliance upon Regulation S and the exemptions from registration provided by Section 4(a)(2) of the Securities Act and Rule 144A. The Notes are being offered hereby only (A) to QIBs in reliance on Rule 144A and (B) to persons other than U.S. persons (as defined in Regulation S) in offshore transactions in reliance upon Regulation S. The minimum principal amount of Notes which may be purchased for any account is US$200,000 or such larger principal amounts as shall be specified in the relevant Final Terms as the minimum denomination for the Notes of a relevant Tranche (or, in either case, the equivalent thereof in another currency or composite currency).

Prior to any issuance of Notes in reliance on Regulation S, each relevant agent will be deemed to represent and agree that it will send to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from them during the distribution compliance period (as defined in Regulation S) a confirmation or notice substantially to the following effect:

"The Notes covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not as a matter of U.S. law be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, except in either case in accordance with Regulation S (or Rule 144A, if available) under the Securities Act. Terms used above have the meaning given to them by Regulation S".

Until the expiration of the period ending 40 days after the later of the commencement of the offering and the issue date of the Notes, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from Registration under the Securities Act.

There is no undertaking to register the Notes hereafter and they cannot be resold except pursuant to an effective registration statement or an exemption from the registration requirements of the Securities Act. Each purchaser of the Notes offered hereby in making its purchase shall be deemed to have made the acknowledgments, representations and agreements as set forth under "Notice to Purchasers" contained on pages i through iii hereof.

### Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("**NI 33-105**"), the Agents are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

**Hong Kong**

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws 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 the Laws of Hong Kong) and which do not constitute an offer to the public within the meaning of that Ordinance; and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purposes of issue (in each case 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 or otherwise is or contains an invitation to the public (except if permitted to do so under the 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 each Agent will be deemed to represent and agree that it has not offered or sold directly or indirectly, and agrees not to offer or sell the Notes, directly or indirectly, in Japan or to, or for the account or benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, a Japanese Person, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and other applicable laws, regulations and ministerial guidelines promulgates by the relevant Japanese governmental or regulatory authorities in effect at the relevant time. For the purpose of this paragraph "**Japanese Person**" means any person resident in Japan, including any corporation or other entity incorporated or organized under the laws of Japan.

**New Zealand**

No action has been or will be taken by any Issuer, the Guarantor or the Agents which would permit a public or regulated offering of any of the Notes, or possession or distribution of any offering material in relation to the Notes, in New Zealand.

Each Agent has represented and agreed, and each further Agent appointed under the Distribution Agreement will be required to represent and agree, that it has not offered, sold or delivered and will not directly or indirectly offer, sell or deliver any 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 has represented and agreed, and each further Agent appointed under the Distribution Agreement will be deemed to represent and agree that it has not offered or sold, and will not offer or sell, any Notes to persons whom it believes to be persons to whom any amounts payable on the Notes are or would be subject to New Zealand resident withholding tax, unless such persons certify that they hold a valid certificate of exemption for New Zealand resident withholding tax purposes and provide a New Zealand tax file number to such Agent (in which event the Agent shall provide details thereof to the relevant Issuer or to the Fiscal Agent).

**People's Republic of China (excluding Hong Kong, Macau and Taiwan)**

The Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China, or the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by all relevant laws and regulations of the PRC.

This Offering Memorandum (i) has not been filed with or approved by the PRC authorities and (ii) does not constitute an offer to sell, or the solicitation of an offer to buy, any Notes in the PRC to any person to whom it is unlawful to make the offer of solicitation in the PRC.

The Notes may not be offered, sold or delivered, or offered, sold or delivered to any person for reoffering or resale or redelivery, in any such case directly or indirectly (i) by means of any advertisement, invitation, document or activity which is directed at, or the contents of which are likely to be accessed or read by, the public in the PRC, or (ii) to any person within the PRC, other than in full compliance with the relevant laws and regulations of the PRC.

Investors in the PRC are responsible for obtaining all relevant government regulatory approvals/licenses, verification and/or registrations themselves, including, but not limited to, those which may be required by the China Securities Regulatory Commission, the State Administration of Foreign Exchange and/or the China Banking Regulatory Commission, and complying with all relevant PRC laws and regulations, including, but not limited to, all relevant foreign exchange regulations and/or securities investment regulations.

**Prohibition of Sales to EEA Retail Investors**

Each Agent, and each further Agent appointed under the Distribution Agreement, will be deemed to represent and agree that, in respect of any offer of Notes on or after January 1, 2018, 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 European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

  (ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

  (iii) not a qualified investor as defined in the Prospectus Directive; and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Prior to January 1, 2018, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Agent, and each further Agent appointed under the Distribution Agreement, will be deemed to represent and agree that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Memorandum, as completed by the Final Terms in relation thereto, to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

  (i) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

  (ii) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Agent or Agents nominated by the relevant Issuer for any such offer; or

  (iii) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (i) to (iii) above shall require the relevant Issuer or any Agent to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

**Republic of Korea**

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act and the decrees and regulations thereunder (the "**FSCMA**") and the Notes have been and will be offered in Korea as a private placement under the FSCMA. None of the Notes may be offered, sold and delivered directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except as otherwise permitted under the applicable laws and regulations of Korea, including the FSCMA and the Foreign Exchange Transaction Law of Korea and the decrees and regulations thereunder (the "**FETL**"). For a period of one year from the issue date of the Notes, any acquirer of the Notes who was solicited to buy the Notes in Korea is prohibited from transferring any of the Notes to another person in any way other than as a whole to one transferee. Furthermore, the purchaser of the Notes shall comply with all applicable regulatory requirements (including but not limited to requirements under the FETL) in connection with the purchase of the Notes.

**Singapore**

This Offering Memorandum has not been registered as a prospectus under the Securities and Futures Act, Chapter 289 of Singapore ("**SFA**") by the Monetary Authority of Singapore and the offer of the Notes in Singapore is made primarily pursuant to the exemptions under Sections 274 and 275 of the SFA. Accordingly, this Offering Memorandum or 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 any person in Singapore other than (i) to an institutional investor as defined in Section 4A of the SFA (an "**Institutional Investor**") pursuant to Section 274 of the SFA, (ii) to an accredited investor as defined in Section 4A of the SFA (an "**Accredited Investor**") or other relevant person as defined in Section 275(2) of the SFA (a "**Relevant Person**") and pursuant to Section 275(1) of the SFA, or to any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with, the conditions of any other applicable exemption or provision of the SFA.

It is a condition of the offer that where the Notes are subscribed for or acquired pursuant to an offer made in reliance on Section 275 of the SFA by a Relevant Person which is:

(a) a corporation (which is not an Accredited Investor), the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an Accredited Investor; or

(b) a trust (where the trustee is not an Accredited Investor), the sole purpose of which is to hold investments and each beneficiary of the trust is an individual who is an Accredited Investor,

the shares, debentures and units of shares and debentures 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, or an Accredited Investor or other 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;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

### Switzerland

This Offering Memorandum does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the Notes will not be listed on the SIX Swiss Exchange. Therefore, this Offering Memorandum may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the Notes may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the Notes with a view to distribution. Any such investors will be individually approached by the Agents from time to time.

### Taiwan

The Notes have not been, and will not be, registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan, the Republic of China ("**Taiwan**") and/or other regulatory authority of Taiwan pursuant to applicable securities laws and regulations and may not be sold, issued or offered within the Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Taiwan Securities and Exchange Act or relevant laws and regulations that requires a registration, filing or approval of the Financial Supervisory Commission of Taiwan and/or other regulatory authority of the Taiwan. No person or entity in Taiwan is authorized to offer, sell or distribute or otherwise intermediate the offering of the Notes or the provision of information relating to this Offering Memorandum.

The Notes may be made available to Taiwan resident investors outside Taiwan for purchase by such investors outside Taiwan for purchase outside Taiwan by investors residing in Taiwan, but may not be issued, offered sold or resold in Taiwan, unless otherwise permitted by Taiwan laws and regulations. No subscription or other offer to purchase the Notes shall be binding on us until received and accepted by us or any Agent outside of Taiwan (the "**Place of Acceptance**"), and the purchase/sale contract arising therefrom shall be deemed a contract entered into in the Place of Acceptance.

### United Kingdom

Each Agent, and each further Agent appointed under the Distribution Agreement, will be deemed to represent and agree that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer or, in the case of ANZNIL Notes, the Guarantor; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

## Legal Matters

The validity of the Notes under New York law will be passed upon for us by our United States counsel Sullivan & Cromwell, Melbourne, Australia. The validity of the Notes under New York law will be passed upon for the Agents by their United States counsel, Sidley Austin LLP, New York, New York, United States. The validity of the Notes under New Zealand law will be passed upon for us by our New Zealand counsel Russell McVeagh, Wellington, New Zealand. These opinions will be conditioned upon, and subject to certain assumptions regarding future action required to be taken by the relevant Issuer, ANZ New Zealand (in the case of ANZNIL Notes) and the Fiscal Agent in connection with the issuance and sale of any particular Note, the specific terms of Notes and other matters which may affect the validity of Notes but which cannot be ascertained at the date of such opinions.

## Independent Auditors

The consolidated financial statements of ANZ Bank New Zealand Limited and its subsidiaries as at September 30, 2017, and September 30, 2016, and for each of the 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, 2017, and September 30, 2016, and for each of the years then ended have been audited by KPMG, independent accountants, as stated in their reports appearing herein.

## General Information

1. The admission of the program to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange's Regulated Market is expected to take effect on or about December 4, 2017. The price of the Notes on the price list of the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any Tranche intended to be admitted to listing on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's Regulated Market will be admitted to listing and trading upon submission to the UK Listing Authority and the London Stock Exchange of the relevant Final Terms and any other information required by the UK Listing Authority and the London Stock Exchange, subject in each case to the issue of the relevant Notes. Prior to admission to trading, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

2. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either Issuer is aware) during the last 12 months which may have, or have had in the recent past, significant effects on the financial position or profitability of each Issuer and, in the case of ANZ New Zealand, its subsidiaries taken as a whole.

3. Since September 30, 2017, there has been no material adverse change in the prospects of each Issuer and, in the case of ANZ New Zealand, its subsidiaries taken as a whole and the ANZ New Zealand Group. Since September 30, 2017, there has been no significant change in the financial or trading position of the ANZ New Zealand Group and ANZNIL.

4. There are no material contracts having been entered into outside the ordinary course of any of the Issuers' businesses, which could result in any group member of any Issuer being under an obligation or entitlement that is material to that Issuer's ability to meet its obligation to Noteholders in respect of the securities being issued.

5. For so long as Notes may be issued pursuant to this Offering Memorandum or any Notes shall be outstanding, the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the office of the Fiscal Agent, the London Paying Agent and the relevant Issuer:

   (i) the constitutive documents of the relevant Issuer;

   (ii) the Fiscal Agency Agreement;

   (iii) the Guarantee;

   (iv) any Final Terms;

   (v) a copy of this Offering Memorandum together with any supplement to this Offering Memorandum or further Offering Memorandum;

   (vi) copies of the most recent publicly available audited accounts of the ANZ New Zealand Group for the financial years ending September 30, 2017, and 2016, including copies of the report of the independent auditor thereon; and

   (vii) copies of the most recently available audited accounts of ANZNIL for the years ended September 30, 2017, and 2016, including copies of the report of the independent auditor thereon.

6. The price and amount of Notes to be issued under the program will be determined by each relevant Issuer and the relevant Agent at the time of issue in accordance with the prevailing market conditions at such time.

7. The Issuers do not intend to provide any post-issuance information in relation to any issue of Notes.

8. The establishment of the program and the issue of the Notes by it thereunder was authorized (i) by resolutions of the board of directors of ANZ New Zealand 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

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# ANZ BANK NEW ZEALAND LIMITED
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# ANNUAL REPORT AND REGISTERED BANK DISCLOSURE STATEMENT
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# ANNUAL REPORT
## FOR THE YEAR ENDED 30 SEPTEMBER 2017

Pursuant to section 211(3) of the Companies Act 1993, the shareholder of the Bank has agreed that the Annual Report of the Banking Group need not comply with any of the paragraphs (a), and (e) to (j) of subsection (1) and subsection (2) of section 211.

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year ended 30 September 2017 and the audit report on those financial statements.

For and on behalf of the Board of Directors:

John Judge
Chairman
15 November 2017

David Hisco
Executive Director
15 November 2017

# GLOSSARY OF TERMS

In this Registered Bank Disclosure Statement (Disclosure Statement) unless the context otherwise requires:

**Bank** means ANZ Bank New Zealand Limited.

**Banking Group** means the Bank and all its controlled entities.

**Immediate Parent Company** means ANZ Holdings (New Zealand) Limited.

**Ultimate Parent Bank** means Australia and New Zealand Banking Group Limited.

**Overseas Banking Group** means the worldwide operations of Australia and New Zealand Banking Group Limited including its controlled entities.

**New Zealand business** means all business, operations, or undertakings conducted in or from New Zealand identified and treated as if it were conducted by a company formed and registered in New Zealand.

**NZ Branch** means the New Zealand business of the Ultimate Parent Bank.

**ANZ New Zealand** means the New Zealand business of the Overseas Banking Group.

**UDC** means UDC Finance Limited.

**Registered Office** is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, New Zealand, which is also the Banking Group's address for service.

**RBNZ** means the Reserve Bank of New Zealand.

**APRA** means the Australian Prudential Regulation Authority.

**the Order** means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

Any term or expression which is defined in, or in the manner prescribed by, the Order shall have the meaning given in or prescribed by the Order.

# INCOME STATEMENT

| | Note | Year to 30/09/2017 NZ$m | Year to 30/09/2016 NZ$m |
|---|---|---|---|
| Interest income | 3 | 6,198 | 6,423 |
| Interest expense | 3 | 3,161 | 3,421 |
| Net interest income | | 3,037 | 3,002 |
| Net trading gains | 4 | 226 | 12 |
| Net funds management and insurance income | 4 | 329 | 414 |
| Other operating income | 4 | 378 | 421 |
| Share of associates' profit | | 5 | 5 |
| Operating income | | 3,975 | 3,854 |
| Operating expenses | 5 | 1,468 | 1,599 |
| Profit before credit impairment and income tax | | 2,507 | 2,255 |
| Credit impairment charge | 14 | 62 | 150 |
| **Profit before income tax** | | 2,445 | 2,105 |
| Income tax expense | 6 | 680 | 570 |
| **Profit after income tax** | | 1,765 | 1,535 |

# STATEMENT OF COMPREHENSIVE INCOME

| | Year to 30/09/2017 NZ$m | Year to 30/09/2016 NZ$m |
|---|---|---|
| **Profit after income tax** | 1,765 | 1,535 |
| *Items that will not be reclassified to profit or loss* | | |
| Actuarial gain on defined benefit schemes | 21 | 18 |
| Income tax expense relating to items not reclassified | (6) | (5) |
| Total items that will not be reclassified to profit or loss | 15 | 13 |
| *Items that may be reclassified subsequently to profit or loss* | | |
| Unrealised gains / (losses) recognised directly in equity | (32) | 91 |
| Realised losses transferred to the income statement | 12 | 9 |
| Income tax credit / (expense) relating to items that may be reclassified | 6 | (28) |
| Total items that may be reclassified subsequently to profit or loss | (14) | 72 |
| **Total comprehensive income for the year** | 1,766 | 1,620 |

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

# BALANCE SHEET

| | Note | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|---|
| **Assets** | | | |
| Cash | 9 | 2,338 | 2,274 |
| Settlement balances receivable | | 536 | 396 |
| Collateral paid | | 1,415 | 2,310 |
| Trading securities | 10 | 7,663 | 11,979 |
| Investments backing insurance contract liabilities | | 123 | 119 |
| Derivative financial instruments | 11 | 9,878 | 21,110 |
| Available-for-sale assets | 12 | 6,360 | 2,859 |
| Net loans and advances | 13 | 117,627 | 114,623 |
| UDC assets held for sale | 29 | 3,065 | - |
| Other assets | | 683 | 701 |
| Life insurance contract assets | | 636 | 630 |
| Investments in associates | | 7 | 7 |
| Premises and equipment | | 367 | 387 |
| Goodwill and other intangible assets | 24 | 3,275 | 3,424 |
| **Total assets** | | 153,973 | 160,819 |
| Interest earning and discount bearing assets | | 138,795 | 134,489 |
| **Liabilities** | | | |
| Settlement balances payable | | 1,840 | 1,771 |
| Collateral received | | 613 | 529 |
| Deposits and other borrowings | 15 | 101,657 | 99,066 |
| Derivative financial instruments | 11 | 9,826 | 21,956 |
| Current tax liabilities | | 39 | 21 |
| Deferred tax liabilities | | 187 | 145 |
| UDC liabilities held for sale | 29 | 1,088 | - |
| Payables and other liabilities | | 1,151 | 1,119 |
| Employee entitlements | | 119 | 126 |
| Other provisions | | 66 | 80 |
| Unsubordinated debt | 16 | 21,323 | 20,014 |
| Subordinated debt | 17 | 3,283 | 3,282 |
| **Total liabilities** | | 141,192 | 148,109 |
| **Net assets** | | 12,781 | 12,710 |
| **Equity** | | | |
| Share capital | 25 | 8,888 | 8,888 |
| Reserves | | 48 | 62 |
| Retained earnings | | 3,845 | 3,760 |
| **Total equity** | | 12,781 | 12,710 |
| Interest and discount bearing liabilities | | 119,814 | 115,961 |

For and on behalf of the Board of Directors:

John Judge
Chairman
15 November 2017

David Hisco
Executive Director
15 November 2017

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

# CASH FLOW STATEMENT

| | Note | Year to 30/09/2017 NZ$m | Year to 30/09/2016 NZ$m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 6,223 | 6,443 |
| Dividends received | | 5 | 2 |
| Net funds management and insurance income | | 344 | 332 |
| Fees and other income received | | 569 | 642 |
| Interest paid | | (3,100) | (3,416) |
| Operating expenses paid | | (1,374) | (1,495) |
| Income taxes paid | | (605) | (648) |
| Cash flows from operating profits before changes in operating assets and liabilities | | 2,062 | 1,860 |
| Net changes in operating assets and liabilities: | | | |
| Change in settlements receivable | | (14) | (19) |
| Change in collateral paid | | 895 | (381) |
| Change in trading securities | | 4,210 | 164 |
| Change in derivative financial instruments | | 10 | (2,028) |
| Change in available-for-sale assets | | (3,476) | (1,381) |
| Change in insurance investment assets | | (4) | 32 |
| Change in loans and advances | | (6,761) | (9,435) |
| Proceeds from sale of loans and advances to NZ Branch | | 481 | 697 |
| Change in settlements payable | | 2 | (67) |
| Change in collateral received | | 84 | (1,158) |
| Change in deposits and other borrowings | | 3,356 | 9,142 |
| Net changes in operating assets and liabilities | | (1,217) | (4,434) |
| **Net cash flows provided by / (used in) operating activities** | 8 | 845 | (2,574) |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of premises and equipment | | 9 | 17 |
| Proceeds from sale of insurance policies | | - | 23 |
| Purchase of intangible assets | | (14) | (29) |
| Purchase of premises and equipment | | (44) | (71) |
| **Net cash flows used in investing activities** | | (49) | (60) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of unsubordinated debt | | 4,922 | 7,380 |
| Proceeds from issue of subordinated debt | | - | 938 |
| Redemptions of unsubordinated debt | | (3,899) | (4,477) |
| Dividends paid | | (1,695) | (1,363) |
| **Net cash flows provided by / (used in) financing activities** | | (672) | 2,478 |
| Net increase / (decrease) in cash and cash equivalents | | 124 | (156) |
| Cash and cash equivalents at beginning of the year | | 2,315 | 2,471 |
| **Cash and cash equivalents at end of the year** | 8 | 2,439 | 2,315 |

# STATEMENT OF CHANGES IN EQUITY

| | Note | Share capital NZ$m | Available-for-sale revaluation reserve NZ$m | Cash flow hedging reserve NZ$m | Retained earnings NZ$m | Total equity NZ$m |
|---|---|---|---|---|---|---|
| **As at 1 October 2015** | | 8,888 | - | (10) | 3,575 | 12,453 |
| Profit after income tax | | - | - | - | 1,535 | 1,535 |
| Unrealised gains / (losses) recognised directly in equity | | - | (2) | 93 | - | 91 |
| Realised losses transferred to the income statement | | - | 2 | 7 | - | 9 |
| Actuarial gain on defined benefit schemes | | - | - | - | 18 | 18 |
| Income tax expense on items recognised directly in equity | | - | - | (28) | (5) | (33) |
| Total comprehensive income for the year | | - | - | 72 | 1,548 | 1,620 |
| Ordinary dividend paid | 25 | - | - | - | (1,350) | (1,350) |
| Preference dividend paid | 25 | - | - | - | (13) | (13) |
| **As at 30 September 2016** | | 8,888 | - | 62 | 3,760 | 12,710 |
| Profit after income tax | | - | - | - | 1,765 | 1,765 |
| Unrealised gains / (losses) recognised directly in equity | | - | 7 | (39) | - | (32) |
| Realised losses transferred to the income statement | | - | - | 12 | - | 12 |
| Actuarial gain on defined benefit schemes | | - | - | - | 21 | 21 |
| Income tax credit / (expense) on items recognised directly in equity | | - | (2) | 8 | (6) | - |
| Total comprehensive income for the year | | - | 5 | (19) | 1,780 | 1,766 |
| Ordinary dividend paid | 25 | - | - | - | (1,684) | (1,684) |
| Preference dividend paid | 25 | - | - | - | (11) | (11) |
| **As at 30 September 2017** | | 8,888 | 5 | 43 | 3,845 | 12,781 |

# NOTES TO THE FINANCIAL STATEMENTS

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (A) Basis of preparation

### (i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Order. The Banking Group's financial statements are for the Bank's consolidated group, which includes its subsidiaries and associates.

These financial statements comply with:
- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 2013
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities
- International Financial Reporting Standards (IFRS).

The principal accounting policies adopted in the preparation of these financial statements are set out below.

### (ii) Use of estimates and assumptions

The preparation of these financial statements requires the use of management judgements, estimates and assumptions that affect reported amounts and the application of policies.

Discussion of the critical accounting estimates, which include complex or subjective decisions or assessments, are covered in note 2. Such estimates are reviewed on an ongoing basis.

### (iii) Basis of measurement

The financial information has been prepared in accordance with the historical cost basis except that the following assets and liabilities are stated at their fair value:

- derivative financial instruments
- available-for-sale financial assets
- financial instruments held for trading
- financial instruments designated at fair value through profit and loss.

### (iv) Rounding

The amounts in the financial statements have been rounded to the nearest million dollars, except where otherwise stated.

### (v) Principles of consolidation

**Subsidiaries**

The consolidated financial statements of the Banking Group comprise the financial statements of the Bank and all its subsidiaries. An entity, including a structured entity, is considered a subsidiary of the Banking Group when it is determined that control over the entity exists. Control is deemed to exist when the Banking Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Power is assessed by examining existing rights that give the Banking Group the current ability to direct the relevant activities of the entity.

At times, the determination of control can be judgemental. Further detail on the judgements involved in assessing control has been provided in note 2.

The effect of all transactions between entities in the Banking Group is eliminated.

**Associates**

The Banking Group applies the equity method of accounting for associates.

### (vi) Foreign currency translation

**Functional and presentation currency**

Items included in the financial statements of each of the Banking Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The Banking Group's financial statements are presented in New Zealand dollars, which is the Banking Group's functional and presentation currency.

**Foreign currency transactions**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they were initially recognised or included in a previous financial report, are recognised in profit or loss in the period in which they arise.

# NOTES TO THE FINANCIAL STATEMENTS

## (B) Operating income

### (i) Net Interest income

**Interest income and expense**

Interest income and expense is recognised in profit or loss using the effective interest method. This method uses the effective interest rate of a financial asset or financial liability to calculate its amortised cost. The effective interest rate is the rate that discounts the stream of estimated future cash receipts or payments over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. For assets subject to prepayment, the expected life is determined on the basis of historical behaviour of the particular asset portfolio – taking into account contractual obligations and prepayment experience.

Fees and costs, which form an integral part of the financial instruments (for example loan origination fees and costs), are recognised using the effective interest method. This is presented as part of interest income or expense depending on whether the underlying financial instrument is a financial asset or liability.

### (ii) Fee and commission income

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

Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

## (C) Income tax

### (i) Income tax expense

Income tax expense comprises both current and deferred taxes and is based on accounting profit adjusted for differences in the accounting and tax treatments of income and expenses (that is, taxable income). Tax expense is recognised in profit or loss, except to the extent to which it relates to items recognised directly in equity or other comprehensive income respectively.

### (ii) Current tax expense

Current tax is the tax payable on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date. It includes any adjustment for tax payable in previous periods. Current tax is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

### (iii) Deferred tax

Deferred tax is accounted for using the balance sheet method. Deferred tax arises because the accounting income is not always the same as the taxable income. This creates temporary differences, which usually reverse over time. Until they reverse, a deferred tax, or liability, is recognised on the balance sheet. Deferred taxes are measured at the tax rates that we expect will apply to the period(s) when the asset is realised, or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Current and deferred tax assets and liabilities are offset only to the extent that: they relate to income taxes imposed by the same taxation authority; there is a legal right and intention to settle on a net basis; and it is allowed under the tax law of the relevant jurisdiction.

## (D) Assets

**Financial assets**

### (i) Financial assets and liabilities at fair value through profit or loss

Trading securities are financial instruments acquired principally for the purpose of selling in the short-term or which are a part of a portfolio which is managed for short-term profit-taking. Purchases and sales of trading securities are recognised on trade date and are initially designated at fair value through profit and loss, and subsequently measured in the balance sheet at their fair value with any revaluation recognised in profit and loss.

### (ii) Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from an underlying price index (or other variable) defined in the contract – sometimes the value is derived from more than one variable: that require little or no initial net investment; and that are settled at a future date. Movements in the price of the underlying variable, which cause the value of the contract to fluctuate, are reflected in the fair value of the derivative.

Derivative financial instruments are entered into for trading purposes (including customer-related reasons) or for hedging purposes (where the derivative instruments are used to hedge the Banking Group's exposures to interest rate risk, currency risk, price risk, credit risk and other exposures relating to non-trading positions).

Derivative financial instruments include forwards, futures, swaps and options.

Derivative financial instruments are recognised initially and at each reporting date at fair value. If the fair value of a derivative is: positive, then it is carried as an asset, but if it is negative, then it is carried as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes a derivative credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and a funding valuation adjustment (FVA) to account for the funding cost and benefits in the derivatives' portfolio.

# NOTES TO THE FINANCIAL STATEMENTS

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

**Fair value hedge**

Where the Banking Group hedges the fair value of a recognised asset or liability or firm commitment, changes in the fair value of the derivative designated as a fair value hedge are recognised in profit or loss. Changes in the fair value of the hedged item attributable to the hedged risk are reflected in adjustments to the carrying value of the hedged item, which are also recognised in profit or loss.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The resulting adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss over the period to maturity of the hedged item.

If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in profit or loss.

**Cash flow hedge**

The Banking Group designates derivatives as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, a foreign exchange component of a firm commitment, or a highly probable forecast transaction. For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedges is recognised initially in other comprehensive income and then recycled to profit or loss in the periods when the hedged item will affect profit or loss. Any ineffective portion is recognised immediately in profit or loss. When the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting, the cumulative amount deferred in equity remains in the hedging reserve, and is subsequently transferred to profit or loss when the hedged item is recognised in profit or loss.

When a forecast hedged transaction is no longer expected to occur, the amount deferred in equity is recognised immediately in profit or loss.

**Derecognition of assets and liabilities**

Derivative assets are removed from the balance sheet when substantially all of the risks and rewards of ownership have transferred. Derivative financial liabilities are removed from the balance sheet when the Banking Group's contractual obligations are discharged, cancelled or expired.

**Derivatives that do not qualify for hedge accounting**

All gains and losses from changes in the fair value of derivatives that are not designated in a hedging relationship but are entered into to manage the interest rate and foreign exchange risk of the Banking Group are recognised in profit or loss. Under certain circumstances, the component of the fair value change in the derivative which relates to current period realised and accrued interest is included in net interest income. The remainder of the fair value movement is included in other income.

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

Available-for-sale assets comprise non-derivative financial assets which the Banking Group designates as available-for-sale but which are not deemed to be held principally for trading purposes, and include equity investments and debt securities.

They are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity in the available-for-sale revaluation reserve. When the asset is sold, the cumulative gain or loss from the available-for-sale reserve is recognised in profit or loss.

**(iv) Net loans and advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the issue of the loan or advance, which are primarily brokerage/mortgage origination fees. Subsequently, they are measured at amortised cost using the effective interest method, net of any provision for credit impairment.

The Banking Group classifies contracts to lease assets and hire purchase agreements as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party. All other lease contracts are classified as operating leases.

The Banking Group enters into transactions in which it transfers financial assets that are recognised on its balance sheet. When the Banking Group retains substantially all of the risks and rewards of the transferred assets, then the transferred assets remain on the Banking Group's balance sheet, however if substantially all the risks and rewards are transferred then the Banking Group derecognises the asset.

If the risks and rewards are partially retained and control over the asset is lost, then the Banking Group derecognises the asset. If control over the asset is not lost, then the Banking Group continues to recognise the asset to the extent of its continuing involvement.

The Banking Group separately recognises the rights and obligations retained, or created, in the transfer as assets and liabilities as appropriate.

# NOTES TO THE FINANCIAL STATEMENTS

**Impairment of loans and advances**

The Banking Group recognises two types of impairment provisions for its loans and advances:

- Individual provisions for significant assets that are assessed to be impaired; and
- Collective provisions for portfolios of similar assets that are assessed collectively for impairment.

*Individually*

If any impaired loans and advances exceed thresholds and an impairment event has been identified, then the Banking Group assesses the need for a provision individually.

Loans and advances are assessed as impaired if the Banking Group has objective evidence that they may not recover principal or interest payments (that is, a loss event has been incurred) and the Banking Group can reliably measure the impairment.

*Collectively*

To allow for any small value loans and advances where losses may have been incurred but not yet identified, and individually significant loans and advances that the Banking Group does not assess as impaired, the Banking Group assesses them collectively in pools of assets with similar risk characteristics.

The Banking Group estimates the provision on the basis of historical loss experience for assets with credit risk characteristics similar to others in the respective collective pool. The Banking Group adjusts the historical loss experience based on current observable data, such as: changing economic conditions, the impact of the inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.

*Measurement*

The Banking Group measures impairment loss as the difference between the asset's carrying amount and estimated future cash flows discounted to their present value at the asset's original effective interest rate. The Banking Group records the result as an expense in profit or loss in the period the Banking Group identifies the impairment and recognises a corresponding reduction in the carrying amount of loans and advances through an offsetting provision.

*Uncollectible amounts*

If a loan or advance is uncollectible (whether partially or in full), then the Banking Group writes off the balance (and also any related provision for credit impairment).

The Banking Group writes off unsecured retail facilities at the earlier of the facility becoming 180 days past due, or the customer's bankruptcy or similar legal release from the obligation to repay the loan or advance. For secured facilities, write offs occur net of the proceeds determined to be recoverable from the realisation of collateral.

*Recoveries*

If the Banking Group recovers any cash flows from loans and advances previously written off, then the recovery is recognised in profit or loss in the period the cash flows are received.

*Off-balance sheet amounts*

Any off-balance sheet items, such as loan commitments, are considered for impairment both on an individual and collective basis.

**Non-financial assets**

**(v) Goodwill**

Goodwill represents the excess amount the Banking Group has paid in acquiring a business over the fair value less costs of disposal of the identifiable assets and liabilities acquired. Goodwill is recognised at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment. This involves using the discounted cash flows methodology to determine the expected future benefits of the cash generating units to which the acquisition relates. Where the assessment results in the goodwill balance exceeding the value of expected future benefits, the difference is charged to profit or loss. Any impairment of goodwill is not subsequently reversed.

**(E) Liabilities**

**Financial liabilities**

**(i) Deposits and other borrowings**

For deposits and borrowings that are not designated at fair value through profit or loss on initial recognition, the Banking Group measures them at amortised cost and recognises their interest expense using the effective interest rate method. When deposits and other borrowings are managed on a fair value basis, reduce or eliminate an accounting mismatch or contain an embedded derivative, the Banking Group designates them as fair value through profit or loss.

For deposits and other borrowings designated at fair value the Banking Group recognises the amount of fair value gain or loss attributable to changes in the Banking Group's own credit risk in other comprehensive income in retained earnings. Any remaining amount of fair

# NOTES TO THE FINANCIAL STATEMENTS

value gain or loss is recognised directly in profit or loss. Once the Banking Group has recognised an amount in other comprehensive income, the Banking Group does not later reclassify it to profit or loss.

Securities sold under repurchase agreements represent a liability to repurchase the financial assets that remain on the Banking Group's balance sheet, since the risks and rewards of ownership remain with the Banking Group. Over the life of the repurchase agreement, the Banking Group recognises the difference between the sale price and the repurchase price and charges it to interest expense in profit or loss.

**(ii) Unsubordinated debt and subordinated debt**

Unsubordinated debt and subordinated debt are measured at amortised cost, except where designated at fair value through profit or loss. Where the Banking Group enters into a hedge accounting relationship, the fair value attributable to the hedged risks is reflected in adjustments to the carrying value of the debt. Interest expense is recognised using the effective interest rate method.

**(F) Equity**

**(i) Shares**

Issued shares are recognised at the amount paid per share net of directly attributable issue costs.

**(ii) Reserves**

**Available-for-sale revaluation reserve**

This reserve includes the changes in fair value and exchange differences on the Banking Group's revaluation of available-for-sale financial assets, net of deferred taxes to be realised upon disposal of the asset.

**Cash flow hedging reserve**

This reserve includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments, net of deferred taxes to be realised when the position is settled.

**(G) Presentation**

**(i) Offsetting of income and expenses**

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in either of the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument
- where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses.

**(ii) Offsetting of financial assets and liabilities**

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

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

**(iii) Segment reporting**

Operating segments are distinguishable components of the Banking Group that provide products or services that are subject to risks and rewards that are different to those of other operating segments. The Banking Group operates predominantly in the banking industry within New Zealand. The Banking Group has very limited exposure to risk associated with operating in different economic environments or political conditions. On this basis no geographical segment information is provided.

**(H) Other**

**(i) Contingent liabilities**

Contingent liabilities are not recognised in the balance sheet but disclosed in note 23 unless it is considered remote that the Banking Group will be liable to settle the possible obligation.

**(ii) Accounting Standards not early adopted**

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2017, and have not been applied by the Banking Group in preparing these financial statements.

The Banking Group has identified three standards where this applies to the Banking Group and further details are set out below.

***NZ IFRS 9 Financial Instruments* (NZ IFRS 9)**

NZ IFRS 9 was issued in September 2014. When operative, this standard will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement* (NZ IAS 39) and includes requirements for impairment, classification and measurement and general hedge accounting.

# NOTES TO THE FINANCIAL STATEMENTS

*Impairment*

NZ IFRS 9 replaces the incurred loss model under NZ IAS 39 with a forward-looking expected loss model. This model will be applied to financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, and certain loan commitments and financial guarantees. Under NZ IFRS 9, a three stage approach is applied to measuring expected credit losses (ECL) based on credit migration between the stages as follows:

- Stage 1: At initial recognition, a provision equivalent to 12 months ECL is recognised.
- Stage 2: Where there has been a significant increase in credit risk since initial recognition, a provision equivalent to full lifetime ECL is required.
- Stage 3: Similar to the current NZ IAS 39 requirements for individual impairment provisions, lifetime ECL is recognised for loans where there is objective evidence of impairment.

ECL are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

*Classification and measurement*

There are three measurement classifications under NZ IFRS 9: amortised cost, fair value through profit or loss and, for financial assets, fair value through other comprehensive income. Financial assets are classified into these measurement classifications taking into account the business model within which they are managed, and their contractual cash flow characteristics.

The classification and measurement requirements for financial liabilities under NZ IFRS 9 are largely consistent with NZ IAS 39 with the exception that for financial liabilities designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income. This part of the standard was early adopted by the Banking Group from 1 October 2013.

*General hedge accounting*

NZ IFRS 9 introduces general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks.

*Transition and impact*

Other than noted above under classification and measurement, NZ IFRS 9 has a date of initial application for the Banking Group of 1 October 2018.

The classification and measurement, and impairment requirements will be applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirements to restate comparative periods. The Banking Group does not intend to restate comparatives. NZ IFRS 9 provides an accounting policy choice to continue with NZ IAS 39 hedge accounting given the International Accounting Standards Board's ongoing project on macro hedge accounting. The Banking Group's current expectation is that it will continue to apply the hedge accounting requirements of NZ IAS 39.

The Banking Group is in the process of assessing the impact of the application of NZ IFRS 9 and is not yet able to reasonably estimate the impact on its financial statements.

***NZ IFRS 15 Revenue from Contracts with Customers* (NZ IFRS 15)**

NZ IFRS 15 was issued in July 2014. NZ IFRS 15 contains new requirements for the recognition of revenue.

NZ IFRS 15 requires identification of distinct performance obligations within a contract and allocation of the transaction price of the contract to those performance obligations. Revenue is recognised as each performance obligation is satisfied. Variable amounts of revenue can only be recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods.

Although a significant proportion of the Banking Group's revenue is outside the scope of NZ IFRS 15, certain revenue streams are in the scope of the standard. NZ IFRS 15 is not mandatorily effective for the Banking Group until 1 October 2018. The Banking Group is in the process of assessing the impact of application of NZ IFRS 15 and is not yet able to reasonably estimate the impact on its financial statements.

NZ IFRS 15 may be applied under different transition approaches which could impact (a) revenue recognised in future periods and (b) the opening adjustment to retained earnings at the relevant date of initial application. The Banking Group has not determined which transition approach it will adopt.

***NZ IFRS 16 Leases* (NZ IFRS 16)**

The final version of NZ IFRS 16 *Leases* was issued in February 2016 and is not effective for the Banking Group until 1 October 2019. NZ IFRS 16 requires a lessee to recognise its right to use the underlying leased asset, as a right-of-use asset, and obligation to make lease payments as a lease liability. NZ IFRS 16 substantially carries forward the lessor accounting requirements in NZ IAS 17 *Leases*.

The Banking Group is in the process of assessing the impact of the application of NZ IFRS 16 and is not yet able to reasonably estimate the impact on its financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

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

There are a number of critical accounting treatments which include complex or subjective judgements and estimates that may affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

An explanation of the judgements and estimates made by the Banking Group, in the process of applying its accounting policies, that have the most significant effect on the amounts recognised in the financial statements is set out below.

**Critical accounting estimates and assumptions**

**Credit provisioning**

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

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

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

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

Refer to note 14 for details of credit impairment provisions.

**Critical judgements in applying the Banking Group's accounting policies**

**Financial instruments at fair value**

The Banking Group's financial instruments measured at fair value are stated in note 1(A)(iii). In estimating fair value the Banking Group uses, wherever possible, quoted market prices in an active market for the financial instrument.

In the event that there is no active market for the instrument, fair value is based on present value estimates or other market accepted valuation techniques. The valuation models incorporate the impact of bid/ask spread, counterparty credit spreads and other factors that would influence the fair value determined by a market participant. The selection of appropriate valuation techniques, methodology and inputs requires judgement. These are reviewed and updated as market practice evolves.

**Derivatives and hedging**

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

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

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

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

**Structured entities**

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities and are often thinly capitalised with a reliance on debt financing for support.

The Banking Group assesses, at inception and periodically, whether a structured entity should be consolidated based on the accounting policy outlined in note 1. Such assessments are predominantly securitisation activities and involvement with managed funds. When

# NOTES TO THE FINANCIAL STATEMENTS

assessing whether the Banking Group controls (and therefore consolidates) a structured entity, judgement is required about whether the Banking Group has power over the relevant activities as well as exposure to variable returns of the structured entity. All involvement, rights and exposure to returns are considered when assessing if control exists.

The Banking Group is deemed to have power over a managed fund when it performs the function of Manager of that managed fund. Whether the Banking Group controls the managed fund depends on whether it holds that power as principal, or as an agent for other investors. The Banking Group is considered the principal, and thus controls the managed fund, when it cannot be easily removed from the position of Manager by other investors and has variable returns through significant aggregate economic interest in that managed fund. In all other cases the Banking Group is considered to be acting in an agency capacity and does not control the managed fund.

Structured entities are consolidated when control exists. In other cases the Banking Group may simply have an interest in or may sponsor a structured entity but not consolidate it.

The Banking Group considers itself the sponsor of an unconsolidated structured entity where it is the primary party involved in the design and establishment of that structured entity and where any of the following apply:

- where the Banking Group is the major user of that structured entity
- the Banking Group's name appears in the name of that structured entity or on its products
- the Banking Group provides implicit or explicit guarantees of that entity's performance.

**Goodwill**

Refer to note 24 for details of goodwill held by the Banking Group.

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

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

The recoverable amount is based on value-in-use calculations. These calculations use cash flow projections based on a number of financial budgets within each segment approved by management covering a three year period. Cash flow projections are based on a range of readily available economic assumptions including GDP and CPI. Cash flows beyond the three year period are extrapolated using a 2% growth rate.

These cash flow projections are discounted using a capital asset pricing model. As at 28 February 2017 when the last valuation was prepared, a discount rate of 11.5% was applied to each cash generating unit. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each segment.

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

# NOTES TO THE FINANCIAL STATEMENTS

## 3. NET INTEREST INCOME

| | Year to 30/09/2017 NZ$m | Year to 30/09/2016 NZ$m |
|---|---|---|
| **Interest income** | | |
| *Financial assets at fair value through profit or loss* | | |
| Trading securities | 351 | 453 |
| *Financial assets not at fair value through profit or loss* | | |
| Cash | 41 | 63 |
| Available-for-sale assets | 106 | 64 |
| Net loans and advances | 5,675 | 5,814 |
| Other | 25 | 29 |
| | 5,847 | 5,970 |
| Total interest income | 6,198 | 6,423 |
| **Interest expense** | | |
| *Financial liabilities at fair value through profit or loss* | | |
| Commercial paper | 122 | 226 |
| *Financial liabilities not at fair value through profit or loss* | | |
| Deposits and other borrowings | 2,090 | 2,310 |
| Unsubordinated debt | 704 | 681 |
| Subordinated debt | 220 | 170 |
| Other | 25 | 34 |
| | 3,039 | 3,195 |
| Total interest expense | 3,161 | 3,421 |
| Net Interest Income | 3,037 | 3,002 |

## 4. NON INTEREST INCOME

| | Year to 30/09/2017 NZ$m | Year to 30/09/2016 NZ$m |
|---|---|---|
| **Net trading gains** | | |
| Net gain on foreign exchange trading | 176 | 203 |
| Net gain / (loss) on trading securities | (121) | 115 |
| Net gain / (loss) on trading derivatives | 171 | (306) |
| Net trading gains | 226 | 12 |
| **Net funds management and insurance income** | | |
| Net funds management income | 199 | 187 |
| Net insurance income | 130 | 227 |
| Total funds management and insurance income | 329 | 414 |
| **Other operating income** | | |
| Lending and credit facility fee income | 35 | 55 |
| Other fee income | 702 | 675 |
| Total fee income | 737 | 730 |
| Direct fee expense | (328) | (308) |
| Net fee income | 409 | 422 |
| Net gain / (loss) on financial liabilities designated at fair value | 4 | (5) |
| Net ineffectiveness on qualifying fair value hedges | (6) | 1 |
| Net loss on derivatives not qualifying for hedge accounting | (50) | (29) |
| Net cash flow hedge loss transferred to income statement | (12) | (7) |
| Net loss on available for sale securities transferred to income statement | - | (2) |
| Gain / (loss) on sale of mortgages to NZ Branch | (1) | 1 |
| Other income | 34 | 40 |
| Total other operating income | 378 | 421 |

# NOTES TO THE FINANCIAL STATEMENTS

## 5. OPERATING EXPENSES

| | Year to 30/09/2017 NZ$m | Year to 30/09/2016 NZ$m |
|---|---|---|
| **Personnel** | | |
| Salaries and related costs | 801 | 811 |
| Superannuation costs | 29 | 30 |
| Share-based payments expense | 15 | 21 |
| Other | 11 | 32 |
| Total personnel expenses | 856 | 894 |
| **Premises** | | |
| Depreciation of premises and equipment | 32 | 32 |
| Leasing and rental costs | 80 | 79 |
| Other | 41 | 41 |
| Total premises expenses | 153 | 152 |
| **Technology** | | |
| Depreciation and amortisation | 44 | 111 |
| Licences and outsourced services | 125 | 116 |
| Other | 49 | 58 |
| Total technology expenses | 218 | 285 |
| **Other** | | |
| Advertising and public relations | 41 | 42 |
| Amortisation and impairment of other intangible assets | 4 | 5 |
| Freight, stationery, postage and telephone | 45 | 48 |
| Goodwill impairment | 3 | - |
| Professional fees | 43 | 45 |
| Travel and entertainment expenses | 26 | 28 |
| Charges from Ultimate Parent Bank | 46 | 64 |
| Other | 33 | 36 |
| Total other expenses | 241 | 268 |
| Total operating expenses | 1,468 | 1,599 |

# NOTES TO THE FINANCIAL STATEMENTS

## 6. INCOME TAX

| | Year to 30/09/2017 NZ$m | Year to 30/09/2016 NZ$m |
|---|---|---|
| **Reconciliation of the prima facie income tax payable on profit** | | |
| Profit before income tax | 2,445 | 2,105 |
| Prima facie income tax at 28% | 685 | 589 |
| Imputed and non-assessable dividends | (1) | (1) |
| Change in tax provisions | (5) | (5) |
| Non assessable income and non deductible expenditure | 2 | (11) |
| Income tax over provided in prior years | (1) | (2) |
| Total income tax expense | 680 | 570 |
| Effective tax rate (%) | 27.8% | 27.1% |
| | | |
| **Amounts recognised in the income statement** | | |
| Current tax | 640 | 582 |
| Deferred tax | 40 | (12) |
| Total income tax expense recognised in the income statement | 680 | 570 |
| | | |
| Imputation credits available | 4,196 | 3,566 |

The imputation credit balance for the Banking Group includes the imputation credit balance in relation to both the New Zealand Resident imputation group and other companies in the the Banking Group that are not in the New Zealand Resident imputation group. The imputation credit balance available includes imputation credits that will arise from the payment of the amount of provision for income tax as at the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

## 7. SEGMENT ANALYSIS

The Banking Group is organised into three major business segments for segment reporting purposes - Retail, Commercial and Institutional. Centralised back office and corporate functions support these segments. These segments are consistent with internal reporting provided to the chief operating decision maker, being the Bank's Chief Executive Officer.

Segment reporting has been updated to reflect minor changes to the Banking Group's structure. Comparative data has been adjusted to be consistent with the current year's segment definitions.

### Retail

Retail provides products and services to Retail, Private Banking, and Business Banking customers via the branch network, mortgage specialists, relationship managers, the contact centre and a variety of self service channels (internet banking, phone banking, ATMs, website and mobile phone banking). Retail and Private Banking customers have personal banking requirements and Business Banking customers consist primarily of small enterprises with annual revenues of less than NZ$5 million. Core products and services include current and savings accounts, unsecured lending (credit cards, personal loans and overdrafts), home loans secured by mortgages over property, investment products, superannuation and insurance services.

### Commercial

Commercial provides services to Commercial & Agri (CommAgri) and UDC customers. CommAgri customers consist of primarily privately owned medium to large enterprises. Commercial's relationship with these businesses ranges from simple banking requirements with revenue from deposit and transactional facilities, and cash flow lending, to more complex funding arrangements with revenue sourced from a wider range of products. UDC is principally involved in the financing and leasing of plant, vehicles and equipment, mainly for small and medium sized businesses, as well as investment products.

### Institutional

Institutional provides financial services through a number of specialised units to large multi-banked corporations, often global, which require sophisticated product and risk management solutions. Those financial services include loan structuring, foreign exchange and interest rate products, wholesale money market services and transaction banking.

### Other

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

### Business segment analysis[1]

| 30/09/2017 | Retail NZ$m | Commercial NZ$m | Institutional NZ$m | Other NZ$m | Total NZ$m |
|---|---|---|---|---|---|
| External interest income | 3,430 | 2,070 | 699 | (1) | 6,198 |
| External interest expense | (1,474) | (302) | (338) | (1,047) | (3,161) |
| Net intersegment interest | (253) | (868) | (1) | 1,122 | - |
| Net interest income | 1,703 | 900 | 360 | 74 | 3,037 |
| Other external operating income | 688 | 21 | 302 | (78) | 933 |
| Share of associates' profit | 5 | - | - | - | 5 |
| Operating income | 2,396 | 921 | 662 | (4) | 3,975 |
| Operating expenses | 1,005 | 259 | 184 | 20 | 1,468 |
| Profit before credit impairment and income tax | 1,391 | 662 | 478 | (24) | 2,507 |
| Credit impairment charge / (release) | 35 | 51 | (24) | - | 62 |
| Profit before income tax | 1,356 | 611 | 502 | (24) | 2,445 |
| Income tax expense | 379 | 172 | 141 | (12) | 680 |
| Profit after income tax | 977 | 439 | 361 | (12) | 1,765 |
| ***Other information*** | | | | | |
| Depreciation and amortisation | 12 | 1 | - | 67 | 80 |
| Goodwill | 1,109 | 1,052 | 1,069 | - | 3,230 |
| Other intangible assets | 111 | 2 | - | 65 | 178 |
| Investment in associates | 7 | - | - | - | 7 |
| Total external assets | 74,505 | 42,186 | 36,259 | 1,023 | 153,973 |
| Total external liabilities | 68,415 | 14,176 | 28,968 | 29,633 | 141,192 |

# NOTES TO THE FINANCIAL STATEMENTS

| 30/09/2016 | Retail NZ$m | Commercial NZ$m | Institutional NZ$m | Other NZ$m | Total NZ$m |
|---|---|---|---|---|---|
| External interest income | 3,456 | 2,202 | 760 | 5 | 6,423 |
| External interest expense | (1,598) | (333) | (403) | (1,087) | (3,421) |
| Net intersegment interest | (198) | (980) | 11 | 1,167 | - |
| Net interest income | 1,660 | 889 | 368 | 85 | 3,002 |
| Other external operating income | 680 | 19 | 104 | 44 | 847 |
| Share of associates' profit | 5 | - | - | - | 5 |
| Operating income | 2,345 | 908 | 472 | 129 | 3,854 |
| Operating expenses | 1,048 | 256 | 179 | 116 | 1,599 |
| Profit before credit impairment and income tax | 1,297 | 652 | 293 | 13 | 2,255 |
| Credit impairment charge | 58 | 72 | 20 | - | 150 |
| Profit before income tax | 1,239 | 580 | 273 | 13 | 2,105 |
| Income tax expense | 335 | 163 | 77 | (5) | 570 |
| Profit after income tax | 904 | 417 | 196 | 18 | 1,535 |
| ***Other information*** | | | | | |
| Depreciation and amortisation | 12 | 1 | - | 135 | 148 |
| Goodwill | 1,109 | 1,052 | 1,072 | - | 3,233 |
| Other intangible assets | 118 | 3 | - | 70 | 191 |
| Investment in associates | 7 | - | - | - | 7 |
| Total external assets | 69,230 | 41,639 | 47,883 | 2,067 | 160,819 |
| Total external liabilities | 63,605 | 13,364 | 40,730 | 30,410 | 148,109 |

[1] Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.

### Other segment

The table below sets out the profit/(loss) after tax impact of items included in Other.

| | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| Operations and support | 1 | 3 |
| Economic hedges | (44) | (29) |
| Revaluation of insurance policies from changes in interest rates | (25) | 42 |
| Other | 56 | 2 |
| Total | (12) | 18 |

# NOTES TO THE FINANCIAL STATEMENTS

## 8. NOTES TO THE CASH FLOW STATEMENT

| | Year to 30/09/2017 NZ$m | Year to 30/09/2016 NZ$m |
|---|---|---|
| **Reconciliation of profit after income tax to net cash flows provided by / (used in) operating activities** | | |
| Profit after income tax | 1,765 | 1,535 |
| **Non-cash items:** | | |
| Depreciation and amortisation | 80 | 148 |
| Provision for credit impairment | 62 | 150 |
| Deferred fee revenue and expenses | (13) | (7) |
| Amortisation of capitalised brokerage / mortgage origination fees | 164 | 152 |
| Amortisation of premiums and discounts | 89 | 70 |
| Fair value gains and losses | (160) | 31 |
| Loss on disposal and impairment of premises and equipment and intangibles | 5 | 4 |
| **Deferrals or accruals of past or future operating cash receipts or payments:** | | |
| Change in net operating assets less liabilities | (1,217) | (4,434) |
| Change in interest receivable | (14) | 29 |
| Change in interest payable | 17 | (43) |
| Change in accrued expenses | (2) | (71) |
| Change in provisions | (20) | 15 |
| Change in life insurance policy assets | 17 | (57) |
| Change in other receivables and payables | (3) | 8 |
| Change in net income tax assets / liabilities | 75 | (78) |
| Dividends from associates in excess of share of profits | - | (3) |
| **Items classified as investing activities:** | | |
| Proceeds from sale of insurance policies | - | (23) |
| Net cash flows provided by / (used in) operating activities | 845 | (2,574) |

| | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| **Reconciliation of cash and cash equivalents to the balance sheet** | | |
| Cash | 2,338 | 2,274 |
| Amounts included in settlement balances receivable / (payable): | | |
| Nostro accounts | 170 | 45 |
| Overdrawn nostro accounts | (69) | (4) |
| Total cash and cash equivalents | 2,439 | 2,315 |

# NOTES TO THE FINANCIAL STATEMENTS

## 9. CASH

| | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| Coins, notes and cash at bank | 202 | 193 |
| Securities purchased under agreements to resell | 360 | 229 |
| Balances with central banks | 1,776 | 1,852 |
| Total cash | 2,338 | 2,274 |

## 10. TRADING SECURITIES

| | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| Government securities | 3,299 | 5,953 |
| Corporate and financial institution securities | 4,364 | 6,026 |
| Total trading securities | 7,663 | 11,979 |

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivatives are subject to the same types of credit and market risk as other financial instruments and the Banking Group manages these risks in a consistent manner.

Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading.

**Derivatives held for trading**

The held for trading classification includes two categories of derivative instruments: those held as trading positions and those used for the Banking Group's balance sheet risk management.

*Trading positions*

Trading positions consist of both sales to customers and market making activities. Sales to customers include the structuring and marketing of derivative products to customers which enable them to take or mitigate risks. Market making activities consist of derivatives entered into principally for the purpose of generating profits from short-term fluctuations in price or margins. Positions may be traded actively or held over a period of time to benefit from expected changes in market rates.

*Balance sheet risk management*

The Banking Group designates certain balance sheet risk management derivatives into hedging relationships in order to minimise income statement volatility. This volatility is created by differences in the timing of recognition of gains and losses between the derivative and the hedged item. Hedge accounting is not applied to all balance sheet risk management positions as some balance sheet risk management derivatives are classified as held for trading.

# NOTES TO THE FINANCIAL STATEMENTS

| | 30/09/2017 | | | 30/09/2016 | | |
|---|---|---|---|---|---|---|
| | Notional principal amount NZ$m | Fair values Assets NZ$m | Fair values Liabilities NZ$m | Notional principal amount NZ$m | Fair values Assets NZ$m | Fair values Liabilities NZ$m |
| **Derivatives held for trading** | | | | | | |
| **Foreign exchange derivatives** | | | | | | |
| Spot and forward contracts | 105,717 | 615 | 696 | 63,895 | 650 | 785 |
| Swap agreements | 164,131 | 1,773 | 1,895 | 141,306 | 1,718 | 3,157 |
| Options purchased | 1,301 | 17 | - | 2,379 | 50 | 2 |
| Options sold | 1,268 | 2 | 27 | 2,248 | 7 | 77 |
| | 272,417 | 2,407 | 2,618 | 209,828 | 2,425 | 4,021 |
| **Interest rate derivatives** | | | | | | |
| Forward rate agreements | 33,945 | - | - | 41,507 | 1 | 5 |
| Swap agreements | 1,049,894 | 7,062 | 6,335 | 1,178,795 | 17,910 | 17,084 |
| Futures contracts | 80,583 | 5 | 24 | 78,988 | 3 | 46 |
| Options purchased | 1,928 | 3 | - | 2,366 | 6 | - |
| Options sold | 1,239 | - | 1 | 1,603 | 1 | 2 |
| | 1,167,589 | 7,070 | 6,360 | 1,303,259 | 17,921 | 17,137 |
| Commodity derivatives | 320 | 13 | 14 | 460 | 33 | 32 |
| Total derivatives held for trading | 1,440,326 | 9,490 | 8,992 | 1,513,547 | 20,379 | 21,190 |
| **Derivatives in hedging relationships** | | | | | | |
| **Fair value hedges** | | | | | | |
| Interest rate swap agreements | 42,038 | 86 | 618 | 34,639 | 238 | 386 |
| | 42,038 | 86 | 618 | 34,639 | 238 | 386 |
| **Cash flow hedges** | | | | | | |
| Interest rate swap agreements | 22,955 | 302 | 216 | 18,985 | 493 | 380 |
| Total derivatives in hedging relationships | 64,993 | 388 | 834 | 53,624 | 731 | 766 |
| Total derivative financial instruments | 1,505,319 | 9,878 | 9,826 | 1,567,171 | 21,110 | 21,956 |

## Derivatives in hedging relationships

*Fair value hedges*

The Banking Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates.

| **Gain / (loss) on fair value hedges attributable to the hedged risk** | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| Gain / (loss) arising from fair value hedges: | | |
| - hedged item | 153 | (45) |
| - hedging instrument | (159) | 46 |
| Net ineffectiveness on qualifying fair value hedges | (6) | 1 |

*Cash flow hedges*

The Banking Group's cash flow hedges comprise interest rate swaps that are used to protect against exposures to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their forecast repricing profile. This forms the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges.

| **Analysis of the cash flow hedging reserve** | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| Deferred gain / (loss) attributable to hedges of: | | |
| Variable rate loan assets | 159 | 296 |
| Short term re-issuances of fixed rate customer and wholesale deposit liabilities | (116) | (234) |
| Total cash flow hedging reserve | 43 | 62 |

All underlying hedged cash flows are expected to be recognised in the income statement in the period in which they occur, which is anticipated to take place over the next ten years (2016: ten years).

# NOTES TO THE FINANCIAL STATEMENTS

## 12. AVAILABLE-FOR-SALE ASSETS

| | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| Government securities | 4,238 | 1,195 |
| Corporate and financial institution securities | 2,121 | 1,663 |
| Equity and other securities | 1 | 1 |
| Total available-for-sale assets | 6,360 | 2,859 |

## 13. NET LOANS AND ADVANCES

| | Note | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|---|
| Overdrafts | | 1,040 | 1,133 |
| Credit cards outstanding | | 1,638 | 1,663 |
| Term loans - housing | | 72,524 | 67,298 |
| Term loans - non-housing | | 44,227 | 43,651 |
| Finance lease and hire purchase receivables | | 1,577 | 1,324 |
| Total gross loans and advances | | 121,006 | 115,069 |
| Less: Provision for credit impairment | 14 | (579) | (622) |
| Less: Unearned income | | (222) | (211) |
| Add: Capitalised brokerage/mortgage origination fees | | 334 | 360 |
| Add: Customer liability for acceptances[1] | | - | 27 |
| Net loans and advances (including assets classified as held for sale) | | 120,539 | 114,623 |
| Less: UDC net loans and advances held for sale | 29 | (2,912) | - |
| Net loans and advances | | 117,627 | 114,623 |

1 Customer liability for acceptances has been recognised in Other assets from 30 September 2017.

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ$4,337 million as at 30 September 2017 (2016: NZ$6,020 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

# NOTES TO THE FINANCIAL STATEMENTS

## 14. PROVISION FOR CREDIT IMPAIRMENT

### Credit impairment charge / (release)

| | 30/09/2017 | | | | 30/09/2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Retail mortgages NZ$m | Other retail exposures NZ$m | Non-retail exposures NZ$m | Total NZ$m | Retail mortgages NZ$m | Other retail exposures NZ$m | Non-retail exposures NZ$m | Total NZ$m |
| New and increased provisions | 5 | 94 | 133 | 232 | 16 | 110 | 111 | 237 |
| Write-backs | (16) | (12) | (67) | (95) | (28) | (18) | (30) | (76) |
| Recoveries | - | (20) | (11) | (31) | - | (22) | (3) | (25) |
| Individual credit impairment charge / (release) | (11) | 62 | 55 | 106 | (12) | 70 | 78 | 136 |
| Collective credit impairment charge / (release) | (3) | (9) | (32) | (44) | 1 | 3 | 10 | 14 |
| Credit impairment charge / (release) | (14) | 53 | 23 | 62 | (11) | 73 | 88 | 150 |

### Movement in provision for credit impairment

| | 30/09/2017 | | | | 30/09/2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Retail mortgages NZ$m | Other retail exposures NZ$m | Non-retail exposures NZ$m | Total NZ$m | Retail mortgages NZ$m | Other retail exposures NZ$m | Non-retail exposures NZ$m | Total NZ$m |
| **Collective provision** | | | | | | | | |
| Balance at beginning of the year | 78 | 130 | 263 | 471 | 77 | 127 | 253 | 457 |
| Charge / (release) to income statement | (3) | (9) | (32) | (44) | 1 | 3 | 10 | 14 |
| Balance at end of the year | 75 | 121 | 231 | 427 | 78 | 130 | 263 | 471 |
| **Individual provision** | | | | | | | | |
| Balance at beginning of the year | 37 | 6 | 108 | 151 | 54 | 9 | 91 | 154 |
| New and increased provisions net of write-backs | (11) | 82 | 66 | 137 | (12) | 92 | 81 | 161 |
| Bad debts written off | (1) | (82) | (50) | (133) | (2) | (95) | (55) | (152) |
| Discount unwind[1] | - | - | (3) | (3) | (3) | - | (9) | (12) |
| Balance at end of the year | 25 | 6 | 121 | 152 | 37 | 6 | 108 | 151 |
| Total provision for credit impairment | 100 | 127 | 352 | 579 | 115 | 136 | 371 | 622 |

[1] The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

### Impaired assets

| | 30/09/2017 | | | | 30/09/2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Retail mortgages NZ$m | Other retail exposures NZ$m | Non-retail exposures NZ$m | Total NZ$m | Retail mortgages NZ$m | Other retail exposures NZ$m | Non-retail exposures NZ$m | Total NZ$m |
| Balance at beginning of the year | 57 | 27 | 342 | 426 | 97 | 32 | 253 | 382 |
| Transfers from productive | 35 | 106 | 430 | 571 | 64 | 129 | 395 | 588 |
| Transfers to productive | (17) | (9) | (56) | (82) | (31) | (8) | (7) | (46) |
| Assets realised or loans repaid | (43) | (22) | (360) | (425) | (71) | (31) | (244) | (346) |
| Write offs | (1) | (82) | (50) | (133) | (2) | (95) | (55) | (152) |
| Total impaired assets | 31 | 20 | 306 | 357 | 57 | 27 | 342 | 426 |
| Other assets under administration | 8 | 2 | - | 10 | 9 | 2 | - | 11 |
| Undrawn facilities with impaired customers | 1 | - | 5 | 6 | - | 1 | 57 | 58 |

# NOTES TO THE FINANCIAL STATEMENTS

## 15. DEPOSITS AND OTHER BORROWINGS

| | Note | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|---|
| Term deposits | | 45,457 | 39,665 |
| On demand and short term deposits | | 41,451 | 42,323 |
| Deposits not bearing interest | | 8,882 | 7,780 |
| UDC secured investments | 21 | 1,039 | 1,592 |
| Total customer deposits | | 96,829 | 91,360 |
| Certificates of deposit | | 1,916 | 2,237 |
| Commercial paper | | 3,721 | 5,364 |
| Securities sold under repurchase agreements | | 157 | 76 |
| Deposits from Immediate Parent Company and NZ Branch | 30 | 73 | 29 |
| Deposits and other borrowings (including liabilities classified as held for sale) | | 102,696 | 99,066 |
| Less: UDC secured investments held for sale | 29 | (1,039) | - |
| Deposits and other borrowings | | 101,657 | 99,066 |

Deposits from customers, except UDC secured investments, are unsecured and rank equally with other unsecured liabilities of the Banking Group. In the unlikely event that the Bank was put into liquidation or ceased to trade, secured creditors and those creditors set out in Schedule 7 of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

## 16. UNSUBORDINATED DEBT

| | Note | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|---|
| Domestic bonds | | 3,900 | 3,975 |
| U.S. medium term notes[1] | | 9,004 | 6,883 |
| Euro medium term notes[1] | | 3,173 | 2,792 |
| Covered bonds[1] | 21, 28 | 5,325 | 6,218 |
| Total unsubordinated debt issued | | 21,402 | 19,868 |
| Fair value hedge adjustment | | (53) | 192 |
| Less: held by the Bank | | (26) | (46) |
| Total unsubordinated debt | | 21,323 | 20,014 |

[1] This unsubordinated debt is issued by ANZ New Zealand (Int'l) Limited and is guaranteed by the Bank.

Unsubordinated debt, other than covered bonds, is unsecured and ranks equally with other unsecured liabilities of the Banking Group.

NZX Regulation has granted the Bank a waiver from NZX Debt Market Listing Rule (Rule) 7.12.1 to the extent that this Rule requires the Bank to release to the market details of any acquisition of the Bank's domestic bonds as a result of its market-making activities or trading on behalf of its clients. The Bank will notify the NZX if any such domestic bonds are subsequently cancelled. Rule 7.12.1 does not extend to the Bank's subsidiaries in this context. The Bank will continue to comply with Rule 7.12.1 in respect of any domestic bonds that are issued, redeemed or purchased by the Bank in any other capacity.

Domestic bonds includes three series of bonds quoted on the NZX Debt Market which mature on 22 March 2019, 2 September 2021 and 1 September 2023 respectively (the Bonds). NZX Regulation has granted the Bank waivers from the requirement in Rule 5.2.3 (as modified by NZX Regulation's Ruling on Rule 5.2.3 issued on 29 September 2015) for the Bonds to be held by at least 100 members of the public holding at least 25% of the Bonds issued (Spread). The effect of these waivers is that the Bonds may not be widely held and there may be reduced liquidity in the Bonds. If there is a material reduction in the Spread of the Bonds, the Bank will notify NZX as appropriate.

# NOTES TO THE FINANCIAL STATEMENTS

## 17. SUBORDINATED DEBT

| | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| **ANZ Capital Notes**[1] | | |
| NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN)[2] | 497 | 496 |
| NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN) | 1,003 | 1,003 |
| NZD 938m ANZ New Zealand Internal Capital Notes 2 (ANZ NZ ICN2) | 938 | 938 |
| **Perpetual subordinated debt** | | |
| NZD 835m perpetual subordinated bond[3] | 835 | 835 |
| AUD 10m perpetual subordinated floating rate loan | 10 | 10 |
| Total subordinated debt | 3,283 | 3,282 |

1 These instruments qualify as additional tier 1 capital.
2 These instruments are quoted on the NZX Debt Market.
3 These instruments are quoted on the NZX Debt Market, and qualify as tier 2 capital, subject to the RBNZ's Basel III transition adjustment. Refer to note 26 for further details.

Subordinated debt is subordinated in right of payment in the event of liquidation or wind up to the claims of depositors and all creditors of the relevant issuer or drawer of the debt.

**ANZ Capital Notes**

- On 5 March 2015, the Bank issued 10.03 million convertible notes (ANZ NZ ICN) to the NZ Branch at NZ$100 each, raising NZ$1,003 million.
- On 31 March 2015, the Bank issued 500 million convertible notes (ANZ NZ CN) at NZ$1 each, raising NZ$500 million before issue costs.
- On 15 June 2016, the Bank issued 9.38 million convertible notes (ANZ NZ ICN2) to the NZ Branch at NZ$100 each, raising NZ$938 million.

ANZ Capital Notes (the notes) are fully paid convertible non-cumulative perpetual subordinated notes.

As at 30 September 2017, ANZ NZ CN carried a BB+ credit rating from Standard and Poor's.

The notes are classified as debt given there are circumstances beyond the Bank's control where the principal is converted into a variable number of shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) or the Ultimate Parent Bank (ANZ NZ CN).

*Interest*

Interest on the notes is non-cumulative and payable as follows:

- ANZ NZ ICN: payable semi-annually in arrears in March and September in each year. The interest rate is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 380 basis point margin.
- ANZ NZ CN: payable quarterly in arrears in February, May, August and November in each year. The interest rate is fixed at 7.2% per annum until 25 May 2020, and thereafter will be based on a floating rate equal to the aggregate of the New Zealand 3 month bank bill rate plus a 350 basis point margin.
- ANZ NZ ICN2: payable semi-annually in arrears in June and December in each year. The interest rate is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 629 basis point margin.

Interest payments are subject to the Bank's absolute discretion and certain payment conditions being satisfied (including RBNZ and APRA (ANZ NZ CN only) requirements). If interest is not paid on the notes the Bank may not, except in limited circumstances, pay dividends or undertake a share buy-back or other capital reduction on its ordinary shares until interest is next paid.

*Conversion features*

On 24 March 2025 (ANZ NZ ICN) or 25 May 2022 (ANZ NZ CN) or an earlier date under certain circumstances, the relevant notes will mandatorily convert into a variable number of ordinary shares of the:

- Bank based on the net assets per share in the Bank's most recently published Disclosure Statement (ANZ NZ ICN) or
- Ultimate Parent Bank based on the average market price of the Ultimate Parent Bank's ordinary shares over a specified period prior to conversion less a 1% discount (ANZ NZ CN).

The mandatory conversion will be deferred for a specified period if the conversion tests are not met.

The Bank will be required to convert some or all of the notes if a common equity capital trigger event, or an RBNZ or APRA (ANZ NZ CN only) non-viability trigger event occurs. The ANZ NZ ICN and ANZ NZ ICN2 will convert into ordinary shares of the Bank and the ANZ NZ CN will convert into ordinary shares of the Ultimate Parent Bank, subject to a maximum conversion number.

# NOTES TO THE FINANCIAL STATEMENTS

A common equity capital trigger event occurs if the:

- Banking Group's common equity tier 1 capital ratio is equal to or less than 5.125% or
- Overseas Banking Group's Level 2 common equity tier 1 capital ratio is equal to or less than 5.125% (ANZ NZ CN only).

An RBNZ non-viability trigger event occurs if the RBNZ directs the Bank to convert or write off the notes or a statutory manager is appointed to the Bank and decides the Bank must convert or write off the notes. An APRA non-viability trigger event occurs if APRA notifies the Ultimate Parent Bank that, without the conversion or write-off of certain securities or a public sector injection of capital (or equivalent support), it considers that the Ultimate Parent Bank would become non-viable.

On 25 May 2020 the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's and APRA's prior approval), or to convert into ordinary shares of the Ultimate Parent Bank, all or some of the ANZ NZ CN at its discretion on similar terms as mandatory conversion.

On 24 March 2023 the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's prior approval), or to convert into ordinary shares of the Bank, all or some of the ANZ NZ ICN at its discretion on similar terms as mandatory conversion.

On 15 June 2026 and each 5th anniversary thereafter the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's prior approval), all or some of the ANZ NZ ICN2 at its discretion.

*Rights of holders in event of liquidation*

The notes rank equally with each other and with the Bank's preference shares and lower than perpetual subordinated debt. Holders of the notes do not have any right to vote in general meetings of the Bank.

**Perpetual subordinated debt**

Perpetual subordinated debt instruments are classified as debt reflecting an assessment of the key terms and conditions of the instruments, and an assessment of the ability, and likelihood of interest payments being deferred. Certain of these instruments have interrelationships that have been considered in this assessment.

*NZD 835,000,000 bond*

This bond was issued by the Bank on 18 April 2008.

The Bank may elect to redeem the bond on 18 April 2018 (the Call Date) or any interest payment date subsequent to 18 April 2018. Interest is payable semi-annually in arrears on 18 April and 18 October each year, up to and including the Call Date and then quarterly thereafter. Should the bond not be called at the Call Date, the Coupon Rate from the Call Date onwards will be based on a floating rate equal to the aggregate of the 3 month bank bill rate plus a 300 basis point margin.

As at 30 September 2017, this bond carried a BBB rating by Standard and Poor's and a Baa1 rating by Moody's.

The coupon interest on the bond is 5.28% per annum until 18 April 2018.

*AUD 10,000,000 loan*

This loan was drawn down by the Bank on 27 March 2013 and has no fixed maturity. Interest is payable semi-annually in arrears on 15 March and 15 September each year. The Bank may repay the loan on any interest payment date after the NZD 835,000,000 bond has been repaid in full.

Coupon interest is based on a floating rate equal to the aggregate of the Australian 6 month bank bill rate plus a 240 basis point margin, increasing to the Australian 6 month bank bill rate plus a 440 basis point margin from 15 September 2018.

# NOTES TO THE FINANCIAL STATEMENTS

## 18. FINANCIAL RISK MANAGEMENT

### Strategy in using financial instruments

Financial instruments are fundamental to the Banking Group's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Banking Group. Financial instruments create, modify or reduce the credit, market and liquidity risks of the Banking Group's balance sheet. The Banking Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Banking Group.

The risk management and policy control framework applicable to the entities comprising the Banking Group has been set by the Board and Risk Committee of the Bank or the Ultimate Parent Bank, as appropriate. Likewise oversight and monitoring of material risk exposures of the Banking Group is undertaken by the Risk Management functions of the Bank and also the Ultimate Parent Bank. Throughout this document, references to the Risk Management of the operations within the entities comprising the Banking Group, implicitly involves oversight by both related entities.

### Credit risk

Credit risk is the risk of financial loss from counterparties being unable to fulfil their contractual obligations. The Banking Group assumes credit risk in a wide range of lending and other activities in diverse markets and many jurisdictions. Credit risks arise not only from traditional lending to customers, but also from inter-bank, treasury, international trade and capital market activities around the world.

Credit risk incorporates the risks associated with the Banking Group lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies.

The Banking Group has an overall lending objective of sound growth for appropriate returns. The credit risk objectives of the Banking Group are set by the Board and are implemented and monitored within a tiered structure of delegated authority, designed to oversee multiple facets of credit risk, including business writing strategies, credit policies/controls, single exposures, portfolio monitoring and risk concentrations.

### Credit risk management

A credit risk management framework is in place across the Banking Group with the aim of ensuring a structured and disciplined approach is maintained in achieving the objectives set by the Board. The framework focuses on policies, people, skills, controls, risk concentrations and portfolio balance. It is supported by portfolio analysis and business-writing strategies, which guide lending decisions and identify segments of the portfolio requiring attention. The effectiveness of the framework is monitored through a series of compliance and reporting processes.

An independent Risk Management function is staffed by risk specialists. In regard to credit risk management, the objective is for Risk Management to provide robust credit policies, to make independent credit decisions, and to provide strong support to front line staff in the application of sound credit practices. In addition to providing independent credit assessment on lending decisions, Risk Management also performs key roles in portfolio management by development and validation of credit risk measurement systems, loan asset quality reporting, and development of credit standards and policies.

The credit risk management framework is top down. The framework is defined by the Banking Group's credit principles and policies. The effectiveness of the credit risk management framework is validated through the compliance and monitoring processes.

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

Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent upon the level of risk. Credit risk policy and management is executed through the Chief Risk Officer, who is responsible for various dedicated areas within the Risk Management division. Wholesale Risk services the Banking Group's commercial, investment banking and rural lending activities through dedicated teams. Retail Risk services the Banking Group's small business and consumer customers. The Credit Reporting team within Risk Management provides an independent overview of credit risk across the Bank at a portfolio level. The Banking Group allows sole discretion for transaction approvals at the business unit level in both the retail and wholesale lending sectors, with larger transactions approved by Retail Risk and Wholesale Risk.

Credit risk review function Group Credit Assurance also provides a further independent check mechanism to ensure the quality of credit decisions. This includes providing independent periodic checks on asset quality and compliance with the agreed standards and policies across the Banking Group.

# NOTES TO THE FINANCIAL STATEMENTS

**Country risk management**

Some customer credit risks involve country risk, whereby actions or events at a national or international level could disrupt servicing of commitments. Country risk arises when payment or discharge of an obligation will, or could, involve the flow of funds from one country to another or involve transactions in a currency other than the domestic currency of the relevant country.

Country ratings are assigned to each country where the Banking Group incurs country risk and have a direct bearing on the Banking Group's risk appetite for each country. The country rating is determined through a defined methodology based around external ratings agencies' ratings and internal specialist opinion. It is also a key risk consideration in the Banking Group's capital pricing model for cross border flows.

The recording of country limits provides the Banking Group with a means to identify and control country risk. Country limits ensure that there is a country-by-country ceiling on exposures that involve country risk. They are recorded by time to maturity and purpose of exposure, e.g., trade, markets and project finance. Country limits are managed centrally by the Ultimate Parent Bank, through a global country risk exposure management system managed by a specialist unit within Institutional Risk.

**Portfolio stress testing**

Stress testing is integral to strengthening the predictive approach to Risk Management and is a key component to managing risk appetite and business writing strategies. It creates greater understanding of impacts on financial performance through modelling relationships and sensitivities between geographic, industry and business unit exposures under a range of macro economic scenarios.

The Ultimate Parent Bank has a dedicated stress testing team that assists business and risk executives in the Banking Group to model and report periodically to management and the Board Risk Committee on a range of scenarios and stress tests.

**Portfolio analysis and reporting**

Credit portfolios are actively monitored at each layer of the risk structure to ensure credit deterioration is quickly detected and mitigated through the implementation of remediation strategies.

Businesses incurring credit risk undertake regular and comprehensive analysis of their credit portfolios. Issue identification and adherence to performance benchmarks are reported to Risk Management and business executives through a series of reports including monthly 'asset quality' reporting. This process is undertaken by or overseen by Risk Management ensuring an efficient and independent conduit exists to identify and communicate emerging credit issues to Banking Group executives and the Board.

**Collateral management**

Banking Group credit principles specify lending only what the counterparty has the capacity and ability to repay and the Banking Group sets limits on the acceptable level of credit risk. Acceptance of credit risk is firstly based on the counterparty's assessed capacity to meet contractual obligations (ie interest and capital repayments). Obtaining collateral is only used to mitigate credit risk. Procedures are designed to ensure collateral is managed, legally enforceable, conservatively valued and adequately insured where appropriate. Banking Group policy sets out the types of acceptable collateral, including:

- Cash
- Mortgages over property
- Charges over business assets, eg premises, stock and debtors
- Charges over financial instruments, eg debt securities and equities in support of trading facilities
- Financial guarantees.

In the event of customer default, any loan security is usually held as mortgagee in possession while action is taken to realise it. Therefore the Banking Group does not usually hold any real estate or other assets acquired through the enforcement of security.

The Banking Group uses International Swaps and Derivatives Association Master Agreements (ISDA) to document derivatives' activities to limit exposure to credit losses. The credit risk is reduced by a master agreement to the extent that, if an event of default occurs, all contracts with the counterparty are terminated and settled on a net basis. Further, it is the Banking Group's preferred practice to include all products covered by the ISDA in the Credit Support Annex (CSA) in order to achieve further credit exposure reduction. Under a CSA, collateral is passed between the parties, depending on the aggregate mark-to-market (positive or negative) of derivative trades between the two entities, to mitigate the market contingent counterparty risk inherent in the outstanding positions.

# NOTES TO THE FINANCIAL STATEMENTS

### Concentrations of credit risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Banking Group monitors its portfolios to identify and assess risk concentrations. Concentration limits are used to guard against large single customer or correlated credit risks. Risk Management, Business Unit executives and senior management monitor large exposure concentrations through a monthly list of the Banking Group's top corporate exposures. The ANZ Credit and Market Risk Committee and Board Risk Committee regularly review a comprehensive list of single customer concentration limits and customers' adherence to these limits.

Analysis of financial assets by industry sector is based on Australian and New Zealand Standard Industrial Classification (ANZSIC) codes. The significant categories shown are the level one New Zealand Standard Industry Output Categories (NZSIOC), except that Agriculture is shown separately as required by the Order.

The presentation of these tables has changed from previous periods to align this disclosure with the classifications in the data series *S34 – Banks: Assets – Loans by industry* published by the RBNZ. This series uses ANZSIC 2006 industry classifications rather than ANZSIC 1996 that were previously used. Updated corresponding amounts as at 30 September 2016 have been provided for comparative purposes. The most significant changes to the 30 September 2016 amounts from the previous presentation are:

1. Industry classification is now shown separately for New Zealand residents and non-New Zealand residents
2. The reduction in exposures to households, previously described as personal lending, is due to the reclassification of loans secured by rental properties to the relevant customer's industry, of which the majority are now included in rental, hiring and real estate services.

| 30/09/2017 | Cash, settlements receivable and collateral paid NZ$m | Trading securities and available-for-sale assets NZ$m | Derivative financial instruments NZ$m | Net loans and advances[3] NZ$m | Other financial assets NZ$m | Credit related commitments[4] NZ$m | Total NZ$m |
|---|---|---|---|---|---|---|---|
| **New Zealand residents** | | | | | | | |
| Agriculture | - | - | 25 | 17,686 | 58 | 1,436 | 19,205 |
| Forestry and fishing, agriculture services | - | - | 1 | 1,277 | 4 | 240 | 1,522 |
| Manufacturing | - | 14 | 146 | 2,729 | 9 | 1,798 | 4,696 |
| Electricity, gas, water and waste services | - | 15 | 437 | 1,602 | 5 | 1,522 | 3,581 |
| Construction | - | - | 13 | 1,635 | 5 | 1,119 | 2,772 |
| Wholesale trade | - | - | 49 | 1,630 | 5 | 1,357 | 3,041 |
| Retail trade and accommodation | - | 1 | 17 | 3,058 | 10 | 1,133 | 4,219 |
| Transport, postal and warehousing | - | 9 | 55 | 1,440 | 5 | 894 | 2,403 |
| Finance and insurance services | 2,296 | 1,709 | 925 | 903 | 338 | 1,259 | 7,430 |
| Public administration and safety[1] | - | 7,477 | 621 | 412 | 1 | 794 | 9,305 |
| Rental, hiring & real estate services | - | - | 114 | 30,697 | 104 | 3,699 | 34,614 |
| Professional, scientific, technical, administrative and support services | - | 1 | 5 | 1,267 | 4 | 619 | 1,896 |
| Households | - | - | - | 51,554 | 180 | 11,878 | 63,612 |
| All other New Zealand residents[2] | - | 5 | 240 | 2,625 | 8 | 1,474 | 4,352 |
| | 2,296 | 9,231 | 2,648 | 118,515 | 736 | 29,222 | 162,648 |
| **Overseas** | | | | | | | |
| Finance and insurance services | 1,795 | 4,325 | 7,006 | 123 | - | 155 | 13,404 |
| Households | - | - | - | 1,454 | 5 | - | 1,459 |
| All other non-NZ residents | - | 467 | 224 | 914 | 3 | - | 1,608 |
| | 1,795 | 4,792 | 7,230 | 2,491 | 8 | 155 | 16,471 |
| Less: Provision for credit impairment | - | - | - | (495) | - | (84) | (579) |
| Less: Unearned income | - | - | - | (222) | - | - | (222) |
| Add: Capitalised brokerage / mortgage origination fees | - | - | - | 334 | - | - | 334 |
| Total financial assets | 4,091 | 14,023 | 9,878 | 120,623 | 744 | 29,293 | 178,652 |

# NOTES TO THE FINANCIAL STATEMENTS

| 30/09/2016 | Cash, settlements receivable and collateral paid NZ$m | Trading securities and available-for-sale assets NZ$m | Derivative financial instruments NZ$m | Net loans and advances[3] NZ$m | Other financial assets NZ$m | Credit related commitments[4] NZ$m | Total NZ$m |
|---|---|---|---|---|---|---|---|
| **New Zealand residents** | | | | | | | |
| Agriculture | - | - | 23 | 17,779 | 58 | 1,366 | 19,226 |
| Forestry and fishing, agriculture services | - | - | 21 | 1,231 | 4 | 242 | 1,498 |
| Manufacturing | - | 12 | 185 | 3,555 | 12 | 2,012 | 5,776 |
| Electricity, gas, water and waste services | - | 21 | 642 | 1,298 | 4 | 1,255 | 3,220 |
| Construction | - | - | 17 | 1,579 | 5 | 1,030 | 2,631 |
| Wholesale trade | - | - | 23 | 1,645 | 5 | 1,596 | 3,269 |
| Retail trade and accommodation | - | - | 63 | 3,059 | 10 | 1,110 | 4,242 |
| Transport, postal and warehousing | - | 5 | 91 | 1,380 | 5 | 924 | 2,405 |
| Finance and insurance services | 2,931 | 2,569 | 1,186 | 807 | 281 | 1,202 | 8,976 |
| Public administration and safety[1] | - | 7,028 | 1,049 | 352 | 5 | 750 | 9,184 |
| Rental, hiring & real estate services | - | - | 75 | 28,230 | 96 | 3,562 | 31,963 |
| Professional, scientific, technical, administrative and support services | - | - | 9 | 1,154 | 4 | 734 | 1,901 |
| Households | - | - | - | 47,923 | 172 | 11,486 | 59,581 |
| All other New Zealand residents[2] | - | 46 | 244 | 2,529 | 8 | 2,305 | 5,132 |
| | 2,931 | 9,681 | 3,628 | 112,521 | 669 | 29,574 | 159,004 |
| **Overseas** | | | | | | | |
| Finance and insurance services | 1,856 | 4,703 | 17,470 | 95 | - | 183 | 24,307 |
| Households | - | - | - | 1,353 | 5 | - | 1,358 |
| All other non-NZ residents | - | 454 | 12 | 1,127 | 4 | - | 1,597 |
| | 1,856 | 5,157 | 17,482 | 2,575 | 9 | 183 | 27,262 |
| Less: Provision for credit impairment | - | - | - | (518) | - | (104) | (622) |
| Less: Unearned income | - | - | - | (211) | - | - | (211) |
| Add: Capitalised brokerage / mortgage origination fees | - | - | - | 360 | - | - | 360 |
| Total financial assets | 4,787 | 14,838 | 21,110 | 114,727 | 678 | 29,653 | 185,793 |

1 Public administration and safety includes exposures to local government administration and central government administration, defence and public safety.
2 Other includes exposures to mining, information media and telecommunications, education and training, health care and social assistance and arts, recreation and other services.
3 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.
4 Credit related commitments comprise undrawn facilities, customer contingent liabilities and letters of offer.

# NOTES TO THE FINANCIAL STATEMENTS

**Maximum exposure to credit risk**

The following table presents the maximum exposure to credit risk for on and off balance sheet financial instruments before taking account of the financial effect of any collateral held or other credit enhancements, unless such collateral meets the offsetting criteria in NZ IAS 32 *Financial Instruments: Presentation*.

The table also provides a quantification of the value of the financial charges the Banking Group holds over a borrower's specific asset (or assets) where the Banking Group is able to enforce the collateral in satisfying a debt in the event of the borrower failing to meet its contractual obligations. For the purposes of this disclosure, where the collateral held is valued at more than the corresponding credit exposure, the financial effect is capped at the value of the credit exposure. In respect of derivative financial instruments, the assessed collateral is the amount of cash collateral received and does not include the effect of any netting arrangements under ISDAs.

The assignable value of credit mitigants, such as guarantees and security interests over the assets of a customer's business, is less certain and their financial effect has not been quantified for disclosure purposes. Credit exposures shown as not fully secured may benefit from such credit mitigants.

| | 30/09/2017 | | | 30/09/2016 | | |
|---|---|---|---|---|---|---|
| | Maximum exposure to credit risk | Financial effect of collateral | Unsecured portion of credit exposure | Maximum exposure to credit risk | Financial effect of collateral | Unsecured portion of credit exposure |
| | NZ$m | NZ$m | NZ$m | NZ$m | NZ$m | NZ$m |
| **On and off-balance sheet positions** | | | | | | |
| Cash | 2,140 | 360 | 1,780 | 2,081 | 229 | 1,852 |
| Settlement balances receivable | 536 | 266 | 270 | 396 | 265 | 131 |
| Collateral paid | 1,415 | - | 1,415 | 2,310 | - | 2,310 |
| Trading securities | 7,663 | - | 7,663 | 11,979 | - | 11,979 |
| Derivative financial instruments | 9,878 | 613 | 9,265 | 21,110 | 529 | 20,581 |
| Available-for-sale assets | 6,360 | - | 6,360 | 2,859 | - | 2,859 |
| Net loans and advances | 120,623 | 110,914 | 9,709 | 114,727 | 104,399 | 10,328 |
| Other financial assets | 744 | 378 | 366 | 678 | 361 | 317 |
| Credit related commitments | 29,293 | 14,526 | 14,767 | 29,653 | 15,193 | 14,460 |
| Total exposure to credit risk | 178,652 | 127,057 | 51,595 | 185,793 | 120,976 | 64,817 |

## Credit quality

A core component of the Banking Group's credit risk management capability is the risk grading framework used across all major business units. A set of risk grading principles and policies is supported by a complementary risk grading methodology. Pronouncements by the International Basel Committee on Banking Supervision have been encapsulated in these principles and policies, including governance, validation and modelling requirements.

The Banking Group's risk grade profile changes dynamically through new counterparty lending and existing counterparty movements in either risk or volume. All counterparty risk grades are subject to frequent review, including statistical and behavioural reviews in consumer and small business segments, and individual counterparty reviews in segments with larger single name borrowers.

**Impairment and provisioning of financial assets**

The Banking Group's policy relating to the recognition and measurement of impaired assets conforms to the RBNZ's guidelines.

Loans are classified as either performing or impaired. Impaired assets are credit exposures where: there is doubt as to whether the full contractual amount (including interest) will be received; a material credit obligation is 90 days past due but not well secured; they are portfolio managed and can be held for up to 180 days past due; or concessional terms have been provided due to the financial difficulties of the customer.

An exposure is classified as past due but not impaired (less than 90 days) where the value of collateral is sufficient to repay both the principal debt and all other potential interest or there is no concern as to the creditworthiness of the counterparty in question.

The past due but not impaired (over 90 days) classification applies where contractual payments are past due by 90 days or more, or where the facility remains outside of contractual arrangements for 90 or more consecutive days, but the Banking Group believes that impairment is not appropriate on the basis of the level of security/collateral available, or the facility is portfolio managed.

The provision for credit impairment represents management's best estimate of the losses incurred in the loan portfolio at balance date based on its experienced judgement.

# NOTES TO THE FINANCIAL STATEMENTS

### Distribution of gross loans and advances assets by credit quality

The credit quality of the portfolio of loans and advances is assessed by reference to the Banking Group's risk grading principles and policies supported by a complementary risk grading methodology.

| | 30/09/2017 | | | | 30/09/2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Retail mortgages NZ$m | Other retail exposures NZ$m | Non-retail exposures NZ$m | Total NZ$m | Retail mortgages NZ$m | Other retail exposures NZ$m | Non-retail exposures NZ$m | Total NZ$m |
| Strong risk rating | 59,574 | 1,330 | 20,922 | 81,826 | 57,203 | 1,263 | 20,248 | 78,714 |
| Satisfactory risk rating | 9,135 | 3,153 | 21,995 | 34,283 | 6,335 | 2,997 | 22,309 | 31,641 |
| Substandard but not past due or impaired | 480 | 435 | 1,643 | 2,558 | 325 | 539 | 1,928 | 2,792 |
| Total neither past due nor impaired | 69,189 | 4,918 | 44,560 | 118,667 | 63,863 | 4,799 | 44,485 | 113,147 |
| Past due but not impaired: | | | | | | | | |
| 1 to 5 days | 375 | 113 | 543 | 1,031 | 337 | 125 | 350 | 812 |
| 6 to 29 days | 181 | 74 | 99 | 354 | 131 | 73 | 42 | 246 |
| 1 to 29 days | 556 | 187 | 642 | 1,385 | 468 | 198 | 392 | 1,058 |
| 30 to 59 days | 85 | 34 | 171 | 290 | 109 | 32 | 62 | 203 |
| 60 to 89 days | 95 | 18 | 12 | 125 | 82 | 17 | 6 | 105 |
| 90 days and over | 132 | 31 | 19 | 182 | 81 | 26 | 23 | 130 |
| Total past due but not impaired | 868 | 270 | 844 | 1,982 | 740 | 273 | 483 | 1,496 |
| Total impaired assets | 31 | 20 | 306 | 357 | 57 | 27 | 342 | 426 |
| Gross loans and advances | 70,088 | 5,208 | 45,710 | 121,006 | 64,660 | 5,099 | 45,310 | 115,069 |

### Credit quality of gross loans and advances neither past due nor impaired

The credit quality of financial assets is assessed by the Banking Group using internal ratings which aim to reflect the relative ability of counterparties to fulfil, on time, their credit-related obligations, and is based on their current probability of default.

### Internal ratings

*Strong risk rating* - Corporate customers demonstrating superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events. Retail customers with low expected loss. This rating band broadly corresponds to ratings "Aaa" to "Ba1" and "AAA" to "BB+" of Moody's Investors Service and Standard & Poor's respectively.

*Satisfactory risk rating* - Corporate customers consistently demonstrating sound operational and financial stability over the medium to long term, even though some may be susceptible to cyclical trends or variability in earnings. Retail customers with moderate expected loss. This rating band broadly corresponds to ratings "Ba2" to "B1" and "BB" to "B+" of Moody's Investors Service and Standard & Poor's respectively.

*Substandard but not past due or impaired* - Corporate customers demonstrating some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. Retail customers with higher expected loss. This rating band broadly corresponds to ratings "B2" to "Caa" and "B" to "CCC" of Moody's Investors Service and Standard & Poor's respectively.

Movements in the rating categories between balance dates are due to both changes in the underlying internal ratings applied to customers and to new loans written or loans rolling off.

### Credit quality of financial assets that are past due but not impaired

Ageing analysis of past due loans is used by the Banking Group to measure and manage credit quality. Financial assets that are past due but not impaired include those:

- Assessed, approved and managed on a portfolio basis within a centralised environment (for example, credit cards and personal loans)
- Held on a productive basis until they are 180 days past due
- Managed on an individual basis.

A large portion of retail credit exposures, such as residential mortgages, are generally well secured. That is, the fair value of associated security is sufficient to ensure that the Banking Group will recover the entire amount owing over the life of the facility and there is reasonable assurance that collection efforts will result in payment of the amounts due in a timely manner.

# NOTES TO THE FINANCIAL STATEMENTS

## Market risk

Market risk is the risk to the Banking Group's earnings arising from changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices. Market risk is generated through both trading activities and the interest rate risk inherent in the banking book.

The Banking Group conducts trading operations in interest rates, foreign exchange, commodities and debt securities.

The Banking Group has a detailed risk management and control framework to support its trading and balance sheet management activities. The framework incorporates a risk measurement approach to quantify the magnitude of market risk within trading and balance sheet portfolios. This approach, and related analysis, identifies the range of possible outcomes that can be expected over a given period of time, establishes the relative likelihood of those outcomes and allocates an appropriate amount of capital to support these activities.

### Market risk management and control responsibilities

The Board Risk Committee has delegated responsibility for the oversight of market risk to the Asset & Liability Committee (ALCO), chaired by the Chief Financial Officer of the Bank. ALCO is required to ensure that market risk exposure across Traded and Non-Traded portfolios remains within the risk appetite specified by the Board Risk Committee. ALCO receives regular reporting on a range of trading and balance sheet market risk exposures.

The Risk Management division of the Banking Group, through the Chief Risk Officer, is responsible for the day-to-day oversight of market risk. This includes the implementation of a comprehensive limit and policy framework to control the amount of risk that the Banking Group will accept. Market risk limits are allocated at various levels and are reported and monitored on a daily basis. The detailed limit framework allocates individual limits to manage and control asset classes (e.g., interest rates, foreign exchange), risk factors (e.g., interest rates, volatilities) and profit and loss limits (to monitor and manage the performance of the trading portfolios).

Additional oversight and monitoring of material risk exposures of the Banking Group is undertaken by the Risk Management functions of the Ultimate Parent Bank.

Within overall strategies and policies, the control of market risk is the joint responsibility of business units and Risk Management, with the delegation of market risk limits from the Board Risk Committee to both Risk Management and the business units.

These risks are monitored daily against a comprehensive limit framework that includes Value at Risk, aggregate market position and sensitivity, product and geographic thresholds. To facilitate the management, control, measurement and reporting of market risk, the Banking Group has grouped market risk into two broad categories:

*a. Traded market risk*

This is the risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. They arise in trading transactions where the Banking Group acts as principal with clients or with the market. The primary risk categories monitored are:

- Currency risk is the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.
- Interest rate risk is the potential loss arising from the change in the value of a financial instrument due to changes in market interest rates or their implied volatilities.
- Credit spread risk is the potential loss arising from a change in value of an instrument due to a movement of its margin or spread relative to a bench mark.

*b. Non-traded market risk (or balance sheet risk)*

This comprises the management of non-traded interest rate risk, liquidity, and the risk to capital and earnings as a result of movements in market rates.

Some instruments do not fall into either category but also expose the Banking Group to market risk. These include equity securities classified as available-for-sale. Regular reviews are performed to substantiate the valuation of these types of instruments.

In all trading areas the Banking Group has implemented models that calculate Value at Risk (VaR) exposures, monitor risk exposures against defined limits on a daily basis, and "stress test" trading portfolios.

### VaR measure

A key measure of market risk is VaR. VaR is a statistical estimate of the likely daily loss and is based on historical market movements.

The confidence level is such that there is a 99% probability that the loss will not exceed the VaR estimate on any given day. Conversely there is 1% probability of the decrease in market value exceeding the VaR estimate on any given day.

The Banking Group's standard VaR approach for both traded and non-traded risk is historical simulation. The Banking Group calculates VaR using historical changes in market rates and prices over the previous 500 business days. Traded and Non-Traded VaR is calculated using a one-day holding period.

# NOTES TO THE FINANCIAL STATEMENTS

It should be noted that because VaR is driven by actual historical observations, it is not an estimate of the maximum loss that the Banking Group could experience from an extreme market event. As a result of this limitation, the Banking Group utilises a number of other risk measures (e.g. stress testing) and associated detailed control limits to measure and manage market risk.

*Traded market risks*

| | 30/09/2017 | | | | 30/09/2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Value at risk at 99% confidence | | | | Value at risk at 99% confidence | | | |
| | Period end | High for year | Low for year | Average for year | Period end | High for year | Low for year | Average for year |
| | NZ$m | NZ$m | NZ$m | NZ$m | NZ$m | NZ$m | NZ$m | NZ$m |
| Foreign exchange risk | 0.1 | 1.2 | 0.1 | 0.4 | 0.2 | 0.9 | 0.1 | 0.4 |
| Interest rate risk | 3.0 | 5.8 | 1.3 | 2.5 | 2.1 | 4.9 | 1.3 | 2.6 |
| Credit spread risk | 0.6 | 0.8 | 0.4 | 0.6 | 0.5 | 0.7 | 0.3 | 0.5 |
| Diversification benefit | (0.9) | n/a | n/a | (0.9) | (0.7) | n/a | n/a | (1.0) |
| Total VaR | 2.8 | 5.3 | 1.4 | 2.6 | 2.1 | 4.4 | 1.3 | 2.5 |

Traded market risk VaR is calculated separately for foreign exchange and for interest rate/debt markets businesses as well as for the Banking Group. The diversification benefit reflects the historical correlation between foreign exchange, interest rate and debt markets.

To supplement the VaR methodology, the Banking Group applies a wide range of stress tests, both on individual portfolios and at the Banking Group level. The Banking Group's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of the Banking Group.

*Non-traded market risk (or balance sheet risk)*

The principal objectives of balance sheet management are to manage net interest income sensitivity while maintaining acceptable levels of interest rate and liquidity risk and to manage the market value of the Banking Group's capital. Liquidity risk is dealt with in the next section.

**Interest rate risk**

The objective of balance sheet interest rate risk management is to mitigate the negative impact of movements in wholesale interest rates on the earnings of the Banking Group's banking book. Non-traded interest rate risk relates to the potential adverse impact to earnings from changes in market interest rates. This risk arises from two principal sources: mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets.

As part of normal business activity the Banking Group has additional risks from fixed rate mortgage prepayments and basis risk:

- Prepayment risk is the potential risk to earnings or market value from when a customer prepays all or part of a fixed rate loan and where any customer fee charged is not sufficient to offset the loss in value to the Banking Group of this financial asset due to movements in interest rates and other pricing factors. As far as possible the true economic cost is passed through to customers in line with their terms and conditions and relevant legislation.
- Basis risk is the potential risk to earnings or market value from differences between customer pricing and wholesale market pricing. This is managed through active review of product margins.

Non-traded interest rate risk is managed to both value and earnings at risk limits. Interest rate risk is reported using three measures: VaR; scenario analysis (to a 1% shock); and interest rate sensitivity gap. This treatment excludes the effect of prepayment and basis risk.

a. *Non-traded interest rate risk VaR*

| | Period end | High for year | Low for year | Average for year |
|---|---|---|---|---|
| | NZ$m | NZ$m | NZ$m | NZ$m |
| **30/09/2017** | | | | |
| Value at risk at 99% confidence | 8.3 | 10.2 | 7.3 | 8.2 |
| **30/09/2016** | | | | |
| Value at risk at 99% confidence | 9.7 | 10.3 | 7.7 | 8.9 |

# NOTES TO THE FINANCIAL STATEMENTS

*b. Scenario analysis – a 1% shock on the next 12 months' net interest income*

A 1% overnight parallel positive shift in the yield curve is modelled to determine the potential impact on net interest income over the succeeding 12 months. This is a standard risk quantification tool.

The figures in the table below indicate the outcome of this risk measure for the current and comparative periods – expressed as a percentage of reported net interest income. The sign indicates the nature of the rate sensitivity with a positive number signifying that a rate increase is positive for net interest income over the next 12 months. Conversely, a negative number signifies that a rate increase is negative for the next 12 months' net interest income.

| | 30/09/2017 | 30/09/2016 |
|---|---|---|
| **Impact of 1% rate shock** | | |
| Period end | 0.6% | 0.4% |
| Maximum exposure | 0.9% | 1.6% |
| Minimum exposure | -0.3% | -0.2% |
| Average exposure (in absolute terms) | 0.4% | 0.7% |

The extent of mismatching between the repricing characteristics and timing of interest bearing assets and liabilities at any point has implications for future net interest income.

**Interest rate sensitivity gap**

The interest rate sensitivity gap analysis provides information about the Banking Group's exposure to interest rate risk.

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

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

The repricing gaps are based upon contractual repricing.

| 30/09/2017 | Total NZ$m | Up to 3 months NZ$m | Over 3 to 6 months NZ$m | Over 6 to 12 months NZ$m | Over 1 to 2 years NZ$m | Over 2 years NZ$m | Not bearing interest NZ$m |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash | 2,338 | 2,140 | - | - | - | - | 198 |
| Settlement balances receivable | 536 | 129 | - | - | - | - | 407 |
| Collateral paid | 1,415 | 1,415 | - | - | - | - | - |
| Trading securities | 7,663 | 496 | 268 | 241 | 2,025 | 4,633 | - |
| Derivative financial instruments | 9,878 | - | - | - | - | - | 9,878 |
| Available-for-sale assets | 6,360 | 713 | 250 | 603 | 1,465 | 3,328 | 1 |
| Net loans and advances[1] | 120,539 | 60,553 | 8,328 | 18,979 | 21,575 | 11,531 | (427) |
| Other financial assets[1] | 744 | 77 | 14 | 29 | 3 | - | 621 |
| Total financial assets | 149,473 | 65,523 | 8,860 | 19,852 | 25,068 | 19,492 | 10,678 |
| **Liabilities** | | | | | | | |
| Settlement balances payable | 1,840 | 630 | - | - | - | - | 1,210 |
| Collateral received | 613 | 613 | - | - | - | - | - |
| Deposits and other borrowings[1] | 102,696 | 68,718 | 12,925 | 8,051 | 2,855 | 1,265 | 8,882 |
| Derivative financial instruments | 9,826 | - | - | - | - | - | 9,826 |
| Unsubordinated debt | 21,323 | 3,511 | 1,567 | 125 | 3,420 | 12,700 | - |
| Subordinated debt | 3,283 | 938 | 1,013 | 835 | - | 497 | - |
| Other financial liabilities[1] | 759 | 151 | - | - | - | - | 608 |
| Total financial liabilities | 140,340 | 74,561 | 15,505 | 9,011 | 6,275 | 14,462 | 20,526 |
| **Hedging instruments** | - | 1,974 | (1,395) | 4,425 | (4,008) | (996) | - |
| Interest sensitivity gap | 9,133 | (7,064) | (8,040) | 15,266 | 14,785 | 4,034 | (9,848) |

# NOTES TO THE FINANCIAL STATEMENTS

| 30/09/2016 | Total NZ$m | Up to 3 months NZ$m | Over 3 to 6 months NZ$m | Over 6 to 12 months NZ$m | Over 1 to 2 years NZ$m | Over 2 years NZ$m | Not bearing interest NZ$m |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash | 2,274 | 2,081 | - | - | - | - | 193 |
| Settlement balances receivable | 396 | 48 | - | - | - | - | 348 |
| Collateral paid | 2,310 | 2,310 | - | - | - | - | - |
| Trading securities | 11,979 | 1,092 | 243 | 308 | 2,090 | 8,246 | - |
| Derivative financial instruments | 21,110 | - | - | - | - | - | 21,110 |
| Available-for-sale assets | 2,859 | 1,956 | 149 | 50 | 160 | 543 | 1 |
| Net loans and advances | 114,623 | 61,267 | 8,256 | 18,483 | 18,677 | 8,411 | (471) |
| Other financial assets | 678 | 65 | 25 | 17 | 12 | - | 559 |
| Total financial assets | 156,229 | 68,819 | 8,673 | 18,858 | 20,939 | 17,200 | 21,740 |
| **Liabilities** | | | | | | | |
| Settlement balances payable | 1,771 | 666 | - | - | - | - | 1,105 |
| Collateral received | 529 | 529 | - | - | - | - | - |
| Deposits and other borrowings | 99,066 | 65,416 | 11,988 | 10,120 | 2,460 | 1,302 | 7,780 |
| Derivative financial instruments | 21,956 | - | - | - | - | - | 21,956 |
| Unsubordinated debt | 20,014 | 4,342 | - | 1,087 | 2,843 | 11,742 | - |
| Subordinated debt | 3,282 | 938 | 1,013 | - | 835 | 496 | - |
| Payables and other liabilities | 639 | 51 | - | - | 9 | 124 | 455 |
| Total financial liabilities | 147,257 | 71,942 | 13,001 | 11,207 | 6,147 | 13,664 | 31,296 |
| **Hedging instruments** | - | 17,376 | (13,314) | 5,850 | (11,914) | 2,002 | - |
| Interest sensitivity gap | 8,972 | 14,253 | (17,642) | 13,501 | 2,878 | 5,538 | (9,556) |

[1] Includes UDC items classified as held for sale

### Foreign currency related risks

This risk relates to the potential loss arising from the decline in the value of foreign currency positions due to changes in foreign exchange rates.

For non-traded instruments in foreign currencies, the risk is monitored and is hedged in accordance with policy. Risk arising from individual funding and other transactions is actively managed. The total amounts of unmatched foreign currency assets and liabilities, and consequent foreign currency exposures arising from each class of financial asset and liability, whether recognised or unrecognised, within each currency are not material.

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

| | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| **Net open position** | | |
| Australian dollar | 24 | 26 |
| Euro | - | 6 |
| Japanese yen | 3 | (3) |
| US dollar | 13 | (5) |
| Other | 2 | 1 |
| Total net open position | 42 | 25 |

# NOTES TO THE FINANCIAL STATEMENTS

## Liquidity risk

Liquidity risk is the risk that the Banking Group is unable to meet its payment obligations as they fall due. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is closely monitored by the Banking Group.

The Banking Group's liquidity and funding risks are governed by a detailed policy framework which is approved by the Risk Committees of the Bank's and Ultimate Parent Bank's Boards. The core objective of the Banking Group's framework is to manage liquidity to meet obligations as they fall due, without incurring unacceptable losses.

Central to the Banking Group's liquidity risk management approach is the establishment of a liquidity risk appetite framework to which the Banking Group must conform at all times. The risk appetite for liquidity has been set as low, and this objective is achieved by the Banking Group managing liquidity risks within the boundaries of the following requirements and principles:

- Maintaining the ability to meet all payment obligations in the immediate term.
- Ensuring the ability to meet "survival horizons" under Banking Group specific and general market liquidity stress scenarios.
- Maintaining strength in the Banking Group's balance sheet structure to ensure long term resilience in the Banking Group's liquidity and funding risk profile.
- Limiting the potential earnings at risk associated with unexpected increases in funding costs or the liquidation of assets under stress.
- Ensuring the liquidity management framework is compatible with regulatory requirements.
- Daily liquidity reporting and scenario analysis, quantifying the Banking Group's positions.
- Targeting a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency.
- Holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations.
- Establishing detailed contingency plans to cover different liquidity crisis events.

Management of liquidity and funding risks are overseen by ALCO.

### Supervision and regulation

The RBNZ requires the Bank to have a comprehensive Board approved liquidity strategy defining: policy, systems and procedures for measuring, assessing, reporting and managing domestic and foreign currency liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis. The Banking Group is required to meet one week and one month liquidity mismatch ratios and a one year core funding ratio each day.

### Scenario modelling

A key component of the Banking Group's liquidity management framework is scenario modelling.

Potential severe name-specific liquidity crisis scenarios which model the behaviour of cash flows where there is a problem (real or perceived) may include, but are not limited to, operational issues, doubts about the solvency of the Banking Group, or adverse rating changes. Under these scenarios the Banking Group may have significant difficulty rolling over or replacing funding. Under the liquidity policy the Banking Group must have sufficient high quality liquid assets to meet its liquidity needs for the following 30 calendar days under these scenarios.

As of 30 September 2017 the Banking Group was in compliance with the above scenarios.

### Structural balance sheet metrics

The Banking Group's liquidity management framework also encompasses structural balance sheet metrics such as the RBNZ core funding ratio. These metrics are designed to limit the amount of funding required to be rolled over within a 1 year timeframe and so interact with the liquidity scenarios to maintain the Banking Group's liquidity position.

### Wholesale funding

The Banking Group's wholesale funding strategy is designed to deliver a sustainable portfolio of wholesale funds that balances cost efficiency while targeting diversification by markets, investors, currencies, maturities and funding structures. Short-term wholesale funding requirements, with a contractual maturity of less than one year, are managed through the Treasury and Markets operations. Long-term wholesale funding is managed and executed through Treasury operations.

The Banking Group also uses maturity concentration limits under the wholesale funding and liquidity management framework. Maturity concentration limits ensure that the Banking Group does not become reliant on issuing large volumes of new wholesale funding within a short time period. Funding instruments used to meet the wholesale borrowing requirement must be on a pre-established list of approved products.

### Funding capacity and debt issuance planning

The Banking Group adopts a conservative approach to determine its funding capacity. Annually, a funding plan is approved by the Bank's Board. The plan is supplemented by regular updates and is linked to the Banking Group's three year strategic planning cycle.

# NOTES TO THE FINANCIAL STATEMENTS

### Funding composition

The Banking Group actively uses balance sheet disciplines to prudently manage the funding mix. The Banking Group employs funding metrics to ensure that an appropriate proportion of its assets are funded from stable sources, including customer liabilities, longer-dated wholesale debt (with remaining term exceeding one year) and equity.

Analysis of funding liabilities by industry is based on ANZSIC codes. The significant categories shown are the level one New Zealand Standard Industry Output Categories (NZSIOC). The presentation of these tables has changed from previous periods to align this disclosure with the classifications in the data series *S41 – Banks: Liabilities – Deposits by industry* published by the RBNZ.

| | Note | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|---|
| **Funding composition** | | | |
| Customer deposits | 15 | 96,829 | 91,360 |
| *Wholesale funding* | | | |
| Unsubordinated debt | | 21,323 | 20,014 |
| Subordinated debt | | 3,283 | 3,282 |
| Certificates of deposit | | 1,916 | 2,237 |
| Commercial paper | | 3,721 | 5,364 |
| Other borrowings | | 230 | 105 |
| Total wholesale funding | | 30,473 | 31,002 |
| Total funding | | 127,302 | 122,362 |
| **Customer deposits by industry - New Zealand residents** | | | |
| Agriculture, forestry and fishing | | 3,487 | 3,334 |
| Manufacturing | | 2,024 | 1,978 |
| Construction | | 1,851 | 1,598 |
| Wholesale trade | | 1,433 | 1,284 |
| Retail trade and accommodation | | 1,516 | 1,328 |
| Financial and insurance services | | 8,996 | 8,918 |
| Rental, hiring and real estate services | | 2,596 | 2,321 |
| Professional, scientific, technical, administrative and support services | | 5,034 | 4,958 |
| Public administration and safety | | 1,261 | 1,258 |
| Arts, recreation and other services | | 1,928 | 1,833 |
| Households | | 53,222 | 49,492 |
| All other New Zealand residents[1] | | 3,483 | 3,040 |
| | | 86,831 | 81,342 |
| **Customer deposits by industry - overseas** | | | |
| Households | | 9,461 | 8,948 |
| All other non-NZ residents | | 537 | 1,070 |
| | | 9,998 | 10,018 |
| Total customer deposits | | 96,829 | 91,360 |
| **Wholesale funding (financial and insurance services industry)** | | | |
| New Zealand | | 9,134 | 9,080 |
| Overseas | | 21,339 | 21,922 |
| Total wholesale funding | | 30,473 | 31,002 |
| Total funding | | 127,302 | 122,362 |
| **Concentrations of funding by geography** | | | |
| New Zealand | | 95,965 | 90,422 |
| Australia | | 796 | 1,017 |
| United States | | 13,471 | 12,215 |
| Europe | | 9,784 | 11,448 |
| Other countries | | 7,286 | 7,260 |
| Total funding | | 127,302 | 122,362 |

1 Other includes mining; electricity, gas, water and waste services; transport, postal and warehousing; information media and telecommunications; education and training; health care and social assistance.

# NOTES TO THE FINANCIAL STATEMENTS

## Liquidity portfolio management

The Banking Group holds a diversified portfolio of cash and high quality highly liquid securities to support liquidity risk management. The size of the Banking Group's liquidity portfolio is based on the amount required to meet the requirements of its internal and regulatory liquidity scenario metrics.

**Total liquidity portfolio**

| | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| Cash and balances with central banks | 2,102 | 2,068 |
| Certificates of deposit | 59 | 1,124 |
| Government, local body stock and bonds | 6,609 | 6,117 |
| Government treasury bills | 775 | 811 |
| Reserve Bank bills | - | 100 |
| Other bonds | 6,390 | 6,483 |
| Total liquidity portfolio | 15,935 | 16,703 |

Assets held for managing liquidity risk include short term cash held with the RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated NZ domestic corporates. These assets would be accepted as collateral by the RBNZ in repurchase transactions. At 30 September 2017 the Banking Group would be eligible to enter into repurchase transactions with a value of NZ$13,832 million. The Banking Group also held unencumbered internal residential mortgage backed securities (RMBS) which would entitle the Banking Group to enter into repurchase transactions with a value of NZ$7,297 million at 30 September 2017.

## Liquidity crisis contingency planning

The Banking Group maintains liquidity crisis contingency plans defining an approach for analysing and responding to a liquidity-threatening event on a group wide basis. The framework includes:

- the establishment of crisis severity/stress levels
- clearly assigned crisis roles and responsibilities
- early warning signals indicative of an approaching crisis, and mechanisms to monitor and report these signals
- outlined action plans, and courses of action for altering asset and liability behaviour
- procedures for crisis management reporting, and covering cash-flow shortfalls
- guidelines determining the priority of customer relationships in the event of liquidity problems
- assigned responsibilities for internal and external communications.

# NOTES TO THE FINANCIAL STATEMENTS

### Contractual maturity analysis of financial assets and liabilities

The following tables present the Banking Group's financial assets and liabilities within relevant contractual maturity groupings, based on the earliest date on which the Bank or the Banking Group may be required to realise an asset or settle a liability. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows, except for derivatives held for trading where the full mark-to-market amount has been included in the less than three months category. As a result, the amounts in the tables below may differ to the amounts reported on the balance sheet.

The contractual maturity analysis for off-balance sheet commitments and contingent liabilities has been prepared using the earliest date at which the Banking Group or the Bank can be called upon to pay. The liquidity risk of credit related commitments and contingent liabilities may be less than the contract amount, and does not necessarily represent future cash requirements as many of these facilities are expected to be only partially used or to expire unused.

The Banking Group does not manage its liquidity risk on this basis.

| 30/09/2017 | Total NZ$m | At call NZ$m | Up to 3 months NZ$m | Over 3 to 12 months NZ$m | Over 1 to 5 years NZ$m | Over 5 years NZ$m | No maturity specified NZ$m |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash | 2,338 | 1,974 | 364 | - | - | - | - |
| Settlement balances receivable | 536 | 185 | 351 | - | - | - | - |
| Collateral paid | 1,415 | - | 1,415 | - | - | - | - |
| Trading securities | 8,226 | - | 366 | 804 | 6,323 | 733 | - |
| Derivative financial assets (trading) | 8,682 | - | 8,682 | - | - | - | - |
| Available-for-sale assets | 6,746 | - | 545 | 1,013 | 4,452 | 735 | 1 |
| Net loans and advances[1] | 159,358 | 146 | 16,149 | 17,405 | 54,848 | 70,810 | - |
| Other financial assets[1] | 332 | - | 276 | 43 | 13 | - | - |
| Total financial assets | 187,633 | 2,305 | 28,148 | 19,265 | 65,636 | 72,278 | 1 |
| **Financial liabilities** | | | | | | | |
| Settlement balances payable | 1,850 | 1,165 | 685 | - | - | - | - |
| Collateral received | 613 | - | 613 | - | - | - | - |
| Deposits and other borrowings[1] | 111,925 | 58,287 | 24,814 | 24,320 | 4,504 | - | - |
| Derivative financial liabilities (trading) | 8,057 | - | 8,057 | - | - | - | - |
| Unsubordinated debt [2] | 22,783 | - | 1,593 | 2,072 | 15,827 | 3,291 | - |
| Subordinated debt[2] | 3,691 | - | 11 | 878 | 669 | 2,133 | - |
| Other financial liabilities[1] | 361 | - | 155 | 6 | 56 | 144 | - |
| Total financial liabilities | 149,280 | 59,452 | 35,928 | 27,276 | 21,056 | 5,568 | - |
| **Derivative financial instruments used for balance sheet management** | | | | | | | |
| - gross inflows | 15,377 | - | 2,082 | 2,300 | 8,128 | 2,867 | - |
| - gross outflows | (15,737) | - | (2,235) | (2,433) | (8,328) | (2,741) | - |
| Net financial assets / (liabilities) after balance sheet management | 37,993 | (57,147) | (7,933) | (8,144) | 44,380 | 66,836 | 1 |

**Contractual maturity of off-balance sheet commitments and contingent liabilities**

| | Total NZ$m | Less than 1 year NZ$m | Beyond 1 year NZ$m |
|---|---|---|---|
| Non-credit related commitments | 488 | 88 | 400 |
| Credit related commitments | 26,769 | 26,769 | - |
| Contingent liabilities | 2,608 | 2,608 | - |
| Total | 29,865 | 29,465 | 400 |

1 Includes UDC items classified as held for sale.
2 Any callable wholesale debt instruments have been included at their next call date. Refer to note 17 for subordinated debt call dates.

# NOTES TO THE FINANCIAL STATEMENTS

| 30/09/2016 | Total NZ$m | At call NZ$m | Up to 3 months NZ$m | Over 3 to 12 months NZ$m | Over 1 to 5 years NZ$m | Over 5 years NZ$m | No maturity specified NZ$m |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash | 2,274 | 2,045 | 229 | - | - | - | - |
| Settlement balances receivable | 396 | 58 | 338 | - | - | - | - |
| Collateral paid | 2,310 | - | 2,310 | - | - | - | - |
| Trading securities | 12,804 | - | 171 | 1,136 | 10,859 | 638 | - |
| Derivative financial assets (trading) | 19,513 | - | 19,513 | - | - | - | - |
| Available-for-sale assets | 2,923 | - | 1,670 | 283 | 969 | - | 1 |
| Net loans and advances | 147,972 | 246 | 15,350 | 17,562 | 50,168 | 64,646 | - |
| Other financial assets | 281 | - | 228 | 41 | 12 | - | - |
| Total financial assets | 188,473 | 2,349 | 39,809 | 19,022 | 62,008 | 65,284 | 1 |
| **Financial liabilities** | | | | | | | |
| Settlement balances payable | 1,740 | 1,111 | 629 | - | - | - | - |
| Collateral received | 529 | - | 529 | - | - | - | - |
| Deposits and other borrowings | 100,429 | 50,413 | 20,790 | 25,095 | 4,131 | - | - |
| Derivative financial liabilities (trading) | 19,374 | - | 19,374 | - | - | - | - |
| Unsubordinated debt[1] | 20,983 | - | 2,363 | 1,882 | 13,466 | 3,272 | - |
| Subordinated debt[1] | 3,354 | - | 11 | 33 | 1,369 | 1,941 | - |
| Other financial liabilities | 264 | - | 33 | 7 | 93 | 131 | - |
| Total financial liabilities | 146,673 | 51,524 | 43,729 | 27,017 | 19,059 | 5,344 | - |
| **Derivative financial instruments used for balance sheet management** | | | | | | | |
| - gross inflows | 16,047 | - | 3,006 | 1,811 | 7,642 | 3,588 | - |
| - gross outflows | (16,844) | - | (3,492) | (1,823) | (7,874) | (3,655) | - |
| Net financial assets / (liabilities) after balance sheet management | 41,003 | (49,175) | (4,406) | (8,007) | 42,717 | 59,873 | 1 |

**Contractual maturity of off-balance sheet commitments and contingent liabilities**

| | Total NZ$m | Less than 1 year NZ$m | Beyond 1 year NZ$m |
|---|---|---|---|
| Non-credit related commitments | 460 | 92 | 368 |
| Credit related commitments | 27,296 | 27,296 | - |
| Contingent liabilities | 2,461 | 2,461 | - |
| Total | 30,217 | 29,849 | 368 |

1 Any callable wholesale debt instruments have been included at their next call date.

# NOTES TO THE FINANCIAL STATEMENTS

## 19. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

| | At amortised cost | At fair value through profit or loss | | Hedging | Available-for-sale assets | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| | | Designated on initial recognition | Held for trading | | | | |
| **30/09/2017** | **NZ$m** | **NZ$m** | **NZ$m** | **NZ$m** | **NZ$m** | **NZ$m** | **NZ$m** |
| Cash | 2,338 | - | - | - | - | 2,338 | 2,338 |
| Settlement balances receivable | 536 | - | - | - | - | 536 | 536 |
| Collateral paid | 1,415 | - | - | - | - | 1,415 | 1,415 |
| Trading securities | - | - | 7,663 | - | - | 7,663 | 7,663 |
| Derivative financial instruments[1] | - | - | 9,490 | 388 | - | 9,878 | 9,878 |
| Available-for-sale assets | - | - | - | - | 6,360 | 6,360 | 6,360 |
| Net loans and advances[2, 3] | 120,539 | - | - | - | - | 120,539 | 120,588 |
| Other financial assets | 621 | 123 | - | - | - | 744 | 744 |
| Total financial assets | 125,449 | 123 | 17,153 | 388 | 6,360 | 149,473 | 149,522 |
| | | | | | | | |
| Settlement balances payable | 1,840 | - | - | - | - | 1,840 | 1,840 |
| Collateral received | 613 | - | - | - | - | 613 | 613 |
| Deposits and other borrowings[3] | 98,975 | 3,721 | - | - | - | 102,696 | 102,751 |
| Derivative financial instruments[1] | - | - | 8,992 | 834 | - | 9,826 | 9,826 |
| Unsubordinated debt[2] | 21,323 | - | - | - | - | 21,323 | 21,517 |
| Subordinated debt | 3,283 | - | - | - | - | 3,283 | 3,501 |
| Other financial liabilities | 608 | - | 151 | - | - | 759 | 759 |
| Total financial liabilities | 126,642 | 3,721 | 9,143 | 834 | - | 140,340 | 140,807 |
| | | | | | | | |
| **30/09/2016** | | | | | | | |
| Cash | 2,274 | - | - | - | - | 2,274 | 2,274 |
| Settlement balances receivable | 396 | - | - | - | - | 396 | 396 |
| Collateral paid | 2,310 | - | - | - | - | 2,310 | 2,310 |
| Trading securities | - | - | 11,979 | - | - | 11,979 | 11,979 |
| Derivative financial instruments[1] | - | - | 20,379 | 731 | - | 21,110 | 21,110 |
| Available-for-sale assets | - | - | - | - | 2,859 | 2,859 | 2,859 |
| Net loans and advances[2] | 114,623 | - | - | - | - | 114,623 | 114,891 |
| Other financial assets | 559 | 119 | - | - | - | 678 | 678 |
| Total financial assets | 120,162 | 119 | 32,358 | 731 | 2,859 | 156,229 | 156,497 |
| | | | | | | | |
| Settlement balances payable | 1,771 | - | - | - | - | 1,771 | 1,771 |
| Collateral received | 529 | - | - | - | - | 529 | 529 |
| Deposits and other borrowings | 93,702 | 5,364 | - | - | - | 99,066 | 99,169 |
| Derivative financial instruments[1] | - | - | 21,190 | 766 | - | 21,956 | 21,956 |
| Unsubordinated debt[2] | 20,014 | - | - | - | - | 20,014 | 20,148 |
| Subordinated debt | 3,282 | - | - | - | - | 3,282 | 3,351 |
| Other financial liabilities | 482 | - | 157 | - | - | 639 | 639 |
| Total financial liabilities | 119,780 | 5,364 | 21,347 | 766 | - | 147,257 | 147,563 |

1 Derivative financial instruments classified as held for trading include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to certain financial assets within loans and advances and certain financial liabilities within unsubordinated debt. The resulting fair value adjustment means that the carrying value differs from the amortised cost.
3 Includes UDC items classified as held for sale.

# NOTES TO THE FINANCIAL STATEMENTS

**Measurement of fair value**

*Valuation methodologies*

The Banking Group has an established control framework that ensures fair value is either determined or validated by a function independent of the party that undertakes the transaction. The control framework ensures that all models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data.

Where quoted market prices are used, prices are independently verified from other sources. For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of valuation models, any inputs to those models, any adjustments required outside of the valuation model and, where possible, independent validation of model outputs. In this way, continued appropriateness of the valuations is ensured.

In instances where the Banking Group holds offsetting risk positions, the Banking Group uses the portfolio exemption in NZ IFRS 13 *Fair Value Measurement* to measure the fair value of such groups of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (that is, an asset) for a particular risk exposure or to transfer a net short position (that is, a liability) for a particular risk exposure.

The Banking Group categorises its fair value measurements on the basis of inputs used in measuring fair value using the fair value hierarchy below:

- Level 1 – Financial instruments that have been valued by reference to unadjusted quoted prices in active markets for identical financial instruments. This category includes financial instruments valued using quoted yields where available for specific debt securities.
- Level 2 – Financial instruments that have been valued through valuation techniques incorporating inputs other than quoted prices within Level 1 that are observable for a similar financial asset or liability, either directly or indirectly.
- Level 3 – Financial instruments that have been valued using valuation techniques which incorporate significant inputs that are not based on observable market data (unobservable inputs).

*Valuation techniques and inputs used*

In the event that there is no quoted market price for the instrument, fair value is based on valuation techniques. The valuation models incorporate the impact of bid/ask spreads, counterparty credit spreads, funding costs and other factors that would influence the fair value determined by market participants.

The majority of valuation techniques employ only observable market data. However, for certain financial instruments the valuation technique may employ some data (valuation inputs or components) which is not readily observable in the current market. In these cases valuation inputs (or components of the overall value) are derived and extrapolated from other relevant market data and tested against historic transactions and observed market trends. To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependent on the significance of the unobservable input to the overall valuation.

The following valuation techniques have been applied to determine the fair values of financial instruments where there is no quoted price (level1) for the instrument:

- For instruments classified as trading securities and securities short sold, derivative financial assets and liabilities, available-for-sale assets, and investments backing insurance contract liabilities, fair value measurements are derived by using modelled valuations techniques (including discounted cash flow models) that incorporate market prices / yields for securities with similar credit risk, maturity and yield characteristics; and/or current market yields for similar instruments.
- For net loans and advances, deposits and other borrowings and unsubordinated debt, discounted cash flow techniques are used where contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates or market borrowing rates of debt with similar maturities or a yield curve appropriate for the remaining term to maturity.

There have been no substantial changes in the valuation techniques applied to different classes of financial instruments during the year.

# NOTES TO THE FINANCIAL STATEMENTS

**Valuation hierarchy for financial assets and financial liabilities measured at fair value in the balance sheet**

| | 30/09/2017 | | | | 30/09/2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 NZ$m | Level 2 NZ$m | Level 3 NZ$m | Total NZ$m | Level 1 NZ$m | Level 2 NZ$m | Level 3 NZ$m | Total NZ$m |
| **Financial assets** | | | | | | | | |
| Trading securities | 7,276 | 387 | - | 7,663 | 11,967 | 12 | - | 11,979 |
| Derivative financial instruments | 5 | 9,870 | 3 | 9,878 | 3 | 21,100 | 7 | 21,110 |
| Available-for-sale assets | 5,336 | 1,023 | 1 | 6,360 | 1,671 | 1,187 | 1 | 2,859 |
| Investments backing insurance contract liabilities | - | 123 | - | 123 | 5 | 114 | - | 119 |
| Total | 12,617 | 11,403 | 4 | 24,024 | 13,646 | 22,413 | 8 | 36,067 |
| **Financial liabilities** | | | | | | | | |
| Deposits and other borrowings | - | 3,721 | - | 3,721 | - | 5,364 | - | 5,364 |
| Derivative financial instruments | 24 | 9,801 | 1 | 9,826 | 46 | 21,908 | 2 | 21,956 |
| Other financial liabilities | 151 | - | - | 151 | 157 | - | - | 157 |
| Total | 175 | 13,522 | 1 | 13,698 | 203 | 27,272 | 2 | 27,477 |

**Valuation hierarchy for financial assets and financial liabilities not measured at fair value[1]**

| | 30/09/2017 | | | | 30/09/2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 NZ$m | Level 2 NZ$m | Level 3 NZ$m | Total NZ$m | Level 1 NZ$m | Level 2 NZ$m | Level 3 NZ$m | Total NZ$m |
| **Financial assets** | | | | | | | | |
| Net loans and advances | - | 117,365 | 3,223 | 120,588 | - | 111,513 | 3,378 | 114,891 |
| **Financial liabilities** | | | | | | | | |
| Deposits and other borrowings | - | 99,030 | - | 99,030 | - | 93,805 | - | 93,805 |
| Unsubordinated debt | 1,487 | 20,030 | - | 21,517 | 1,629 | 18,519 | - | 20,148 |
| Subordinated debt | 1,368 | 2,133 | - | 3,501 | 1,361 | 1,990 | - | 3,351 |
| Total | 2,855 | 121,193 | - | 124,048 | 2,990 | 114,314 | - | 117,304 |

[1] Fair values, where the carrying amount is not considered a close approximation of fair value.

## 20. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following is an analysis of asset and liability line items in the balance sheet that combine amounts expected to be realised or due to be settled within one year and after more than one year.

| | 30/09/2017 | | | 30/09/2016 | | |
|---|---|---|---|---|---|---|
| | within one year NZ$m | after more than one year NZ$m | Total NZ$m | within one year NZ$m | after more than one year NZ$m | Total NZ$m |
| **Assets** | | | | | | |
| Investments backing insurance contract liabilities | 120 | 3 | 123 | 107 | 12 | 119 |
| Available-for-sale assets | 1,400 | 4,960 | 6,360 | 1,915 | 944 | 2,859 |
| Net loans and advances[1] | 24,945 | 95,594 | 120,539 | 24,976 | 89,647 | 114,623 |
| Other assets[1] | 665 | 38 | 703 | 598 | 103 | 701 |
| Life insurance contract assets | 45 | 591 | 636 | 42 | 588 | 630 |
| **Liabilities** | | | | | | |
| Deposits and other borrowings[1] | 98,193 | 4,503 | 102,696 | 95,301 | 3,765 | 99,066 |
| Payables and other liabilities[1] | 1,006 | 178 | 1,184 | 884 | 235 | 1,119 |
| Employee entitlements[1] | 34 | 86 | 120 | 29 | 97 | 126 |
| Other provisions | 66 | - | 66 | 79 | 1 | 80 |
| Unsubordinated debt | 3,169 | 18,154 | 21,323 | 4,009 | 16,005 | 20,014 |
| Subordinated debt[2] | 845 | 2,438 | 3,283 | - | 3,282 | 3,282 |

[1] Includes UDC items classified as held for sale.
[2] Any callable wholesale debt instruments have been included at their next call date.

# NOTES TO THE FINANCIAL STATEMENTS

## 21. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

**Assets charged as security for liabilities[1]**

The carrying amounts of assets pledged as security are as follows:

| | Carrying Amount | | Related Liability | |
|---|---|---|---|---|
| | 30/09/2017 NZ$m | 30/09/2016 NZ$m | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
| Securities sold under agreements to repurchase | 157 | 77 | 157 | 76 |
| Residential mortgages pledged as security for covered bonds | 10,595 | 10,265 | 5,325 | 6,218 |
| Assets pledged as collateral for UDC secured investments | 2,985 | 2,665 | 1,039 | 1,592 |

UDC Secured Investments are secured by a security interest granted under a trust deed over all of UDC's present and future assets and undertakings, to Trustees Executors Limited, as supervisor. The assets subject to the security interest comprise mainly loans to UDC's customers and certain plant and equipment. The security interest secures all amounts payable by UDC on the UDC Secured Investments and all other monies payable by UDC under the trust deed.

**Collateral accepted as security for assets[1]**

The Banking Group has received collateral in relation to reverse repurchase agreements. These transactions are governed by standard industry agreements.

The fair value of collateral received and sold or repledged is as follows:

| | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| **Collateral received on standard reverse repurchase agreements** | | |
| Fair value of assets which can be sold | 361 | 231 |
| Fair value of assets sold or repledged | 218 | 141 |

[1] Excludes the amounts disclosed as collateral paid and received in the balance sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of the collateral agreements are included in the standard CSA that forms part of the ISDA.

# NOTES TO THE FINANCIAL STATEMENTS

## 22. OFFSETTING

The following information relates to financial assets and liabilities which have not been set off in the balance sheet but for which the Banking Group has enforceable master netting agreements in place with counterparties. No financial assets and liabilities have been set off in the balance sheet.

| | Gross amounts presented in the balance sheet | Related amounts not offset[1] | | |
|---|---|---|---|---|
| | | Financial instruments | Cash collateral | Net amounts |
| **30/09/2017** | **NZ$m** | **NZ$m** | **NZ$m** | **NZ$m** |
| **Financial assets** | | | | |
| Collateral paid | 409 | - | (348) | 61 |
| Trading securities[2] | 157 | (157) | - | - |
| Derivative financial instruments | 7,945 | (7,478) | (245) | 222 |
| **Financial liabilities** | | | | |
| Collateral received | 318 | - | (245) | 73 |
| Securities sold under agreements to repurchase[3] | 157 | (157) | - | - |
| Derivative financial instruments | 8,440 | (7,478) | (348) | 614 |
| **30/09/2016** | | | | |
| **Financial assets** | | | | |
| Collateral paid | 1,405 | - | (1,332) | 73 |
| Trading securities[2] | 77 | (76) | - | 1 |
| Derivative financial instruments | 7,618 | (7,280) | (323) | 15 |
| **Financial liabilities** | | | | |
| Collateral received | 358 | - | (323) | 35 |
| Securities sold under agreements to repurchase[3] | 76 | (76) | - | - |
| Derivative financial instruments | 8,768 | (7,280) | (1,332) | 156 |

1 The Banking Group enters into derivatives and repurchase and reverse repurchase agreements with various counterparties which are governed by industry standard master netting agreements. The Banking Group holds and provides cash and securities collateral in respective of derivative transactions covered by these agreements. The right to set off balances under these master netting agreements or to set off cash and securities collateral only arises in the event of non-payment or default and, as a result, these arrangements do not qualify for offsetting under NZ IAS 32 *Financial Instruments: Presentation*.

2 This is the amount of trading securities encumbered through repurchase agreements, see financial assets pledged as collateral table in note 21.

3 Included in deposits and other borrowings, see note 15.

# NOTES TO THE FINANCIAL STATEMENTS

## 23. CREDIT RELATED COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

| | 30/09/2017<br>NZ$m | 30/09/2016<br>NZ$m |
|---|---|---|
| Contract amount of: | | |
| **Credit related commitments - facilities provided** | | |
| Undrawn facilities | 26,769 | 27,296 |
| **Guarantees and contingent liabilities** | | |
| Guarantees and letters of credit | 1,010 | 850 |
| Performance related contingencies | 1,598 | 1,611 |
| Total guarantees and contingent liabilities | 2,608 | 2,461 |
| Total Credit Related Commitments, Guarantees and Contingent Liabilities | 29,377 | 29,757 |

These guarantees and contingent liabilities relate to transactions that the Banking Group has entered into as principal, including guarantees, standby letters of credit and documentary letters of credit.

Documentary letters of credit involve the issue of letters of credit guaranteeing payment in favour of an exporter secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingencies are liabilities that oblige the Banking Group to make payments to a third party should the customer fail to fulfil the non-monetary terms of the contract.

To reflect the risk associated with these transactions, they are subjected to the same credit origination, portfolio management and collateral requirements as customers that apply for loans. The contract amount represents the maximum potential amount that could be lost if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

### Other contingent liabilities

The Banking Group has other contingent liabilities in respect of actual and possible claims and court proceedings. An assessment of the Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision made where deemed necessary.

## 24. GOODWILL AND OTHER INTANGIBLE ASSETS

| | Note | 30/09/2017<br>NZ$m | 30/09/2016<br>NZ$m |
|---|---|---|---|
| Goodwill | | 3,230 | 3,233 |
| Software | | 67 | 76 |
| Other intangibles | | 111 | 115 |
| Goodwill and other intangible assets (including assets classified as held for sale) | | 3,408 | 3,424 |
| Less: goodwill allocated to UDC and held for sale | 29 | (133) | - |
| Goodwill and other intangible assets | | 3,275 | 3,424 |

# NOTES TO THE FINANCIAL STATEMENTS

## 25. SHARE CAPITAL

| | Number of issued shares | | NZ$ millions | |
|---|---|---|---|---|
| | 30/09/2017 | 30/09/2016 | 30/09/2017 | 30/09/2016 |
| Ordinary shares | 3,345,755,498 | 3,345,755,498 | 8,588 | 8,588 |
| Redeemable preference shares | 300,000,000 | 300,000,000 | 300 | 300 |
| Total share capital | 3,645,755,498 | 3,645,755,498 | 8,888 | 8,888 |

### Ordinary shares

650,712 of the ordinary shares are uncalled (2016: 650,712 shares uncalled).

During the year ended 30 September 2017 the Bank paid ordinary dividends of NZ$1,684 million (2016: NZ$1,350 million) to the Immediate Parent Company (equivalent to NZ$0.50 per share) (2016: equivalent to NZ$0.40 per share).

All ordinary shares share equally in dividends and any proceeds available to ordinary shareholders on winding up of the Bank. On a show of hands every member who is present at a meeting in person or by proxy or by representative is entitled to one vote, and upon a poll every member shall have one vote for each share held.

### Preference shares

All preference shares were issued by the Bank to the Immediate Parent and do not carry any voting rights. The preference shares are wholly classified as equity instruments as there is no contractual obligation for the Bank to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavourable basis. The key terms of the preference shares are as follows:

*Dividends*

Dividends are payable at the discretion of the directors of the Bank and are non-cumulative. The Bank must not resolve to pay any dividend or make any other distribution on its ordinary shares until the next preference dividend payment date if the dividend on the preference shares is not paid.

Should the Bank elect to pay a dividend, the dividend is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 325 basis point margin, multiplied by one minus the New Zealand company tax rate, with dividend payments due on 1 March and 1 September each year.

*Redemption features*

The preference shares are redeemable, subject to prior written approval of the RBNZ, by the Bank providing notice in writing to holders of the preference shares:

- on any date on or after a change to laws or regulations that adversely affects the regulatory capital or tax treatment of the preference shares or
- on any dividend payment date on or after 1 March 2019 or
- on any date after 1 March 2019 if the Bank has ceased to be a wholly owned subsidiary of the Ultimate Parent Bank.

The preference shares may be redeemed for nil consideration should a non-viability trigger event occur.

*Rights of holders in event of liquidation*

In the event of liquidation, holders of preference shares are entitled to available subscribed capital per share, pari passu with all holders of existing preference shares and ANZ capital notes but in priority to all holders of ordinary shares. They have no entitlement to participate in further distribution of profits or assets.

The preference shares qualify as “additional tier 1 capital” for capital adequacy purposes.

# NOTES TO THE FINANCIAL STATEMENTS

## 26. CAPITAL ADEQUACY

**Capital management policies**

The Banking Group's core capital objectives are to:

- Protect the interests of depositors, creditors and shareholders
- Ensure the safety and soundness of the Banking Group's capital position
- Ensure that the capital base supports the Banking Group's risk appetite, and strategic business objectives, in an efficient and effective manner.

The Board holds ultimate responsibility for ensuring that capital adequacy is maintained. This includes: setting, monitoring and obtaining assurance for the Banking Group's Internal Capital Adequacy Assessment Process ("ICAAP") policy and framework; standardised risk definitions for all material risks; materiality thresholds; capital adequacy targets; internal economic risk capital principles; and risk appetite.

The Banking Group has minimum and trigger levels for common equity tier 1, tier 1 and total capital that ensure sufficient capital is maintained to:

- Meet minimum prudential requirements imposed by regulators
- Ensure consistency with the Banking Group's overall risk profile and financial positions, taking into account its strategic focus and business plan
- Support the economic risk capital requirements of the business.

The Banking Group's Asset & Liability Committee and its related Capital Management Forum are responsible for developing, implementing and maintaining the Banking Group's ICAAP framework, including ongoing monitoring, reporting and compliance. The Banking Group's ICAAP is subject to independent and periodic review conducted by Internal Audit.

The Banking Group has complied with all externally imposed capital requirements to which it is subject during the current and prior periods.

| RBNZ Basel III capital ratios | RBNZ minimum ratios | Banking Group | | Bank | |
|---|---|---|---|---|---|
| | | 30/09/2017 | 30/09/2016 | 30/09/2017 | 30/09/2016 |
| **Unaudited** | | | | | |
| Common equity tier 1 capital | 4.5% | 10.7% | 10.0% | 9.5% | 8.9% |
| Tier 1 capital | 6.0% | 14.1% | 13.2% | 13.0% | 12.2% |
| Total capital | 8.0% | 14.4% | 13.7% | 13.3% | 12.8% |
| Buffer ratio | 2.5% | 6.2% | 5.5% | | |

# NOTES TO THE FINANCIAL STATEMENTS

## Capital of the Banking Group

| | Note | Unaudited 30/09/2017 NZ$m |
|---|---|---|
| **Tier 1 capital** | | |
| *Common equity tier 1 capital* | | |
| Paid up ordinary shares issued by the Bank | 25 | 8,588 |
| Retained earnings (net of appropriations) | | 3,845 |
| Accumulated other comprehensive income and other disclosed reserves | | 48 |
| *Less deductions from common equity tier 1 capital* | | |
| Goodwill and intangible assets, net of associated deferred tax liabilities | | (3,399) |
| Cash flow hedge reserve | | (43) |
| Expected losses to the extent greater than total eligible allowances for impairment | | (312) |
| Common equity tier 1 capital | | 8,727 |
| *Additional tier 1 capital* | | |
| Preference shares | 25 | 300 |
| ANZ Capital Notes | 17 | 2,441 |
| Capital attributable to Bonus Bonds Scheme investors | | 37 |
| Additional tier 1 capital | | 2,778 |
| Total tier 1 capital | | 11,505 |
| **Tier 2 capital** | | |
| *Qualifying tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements* | | |
| NZD 835,000,000 perpetual subordinated bond | 17 | 835 |
| *Less deductions from tier 2 capital* | | |
| Basel III transition adjustment[1] | | (601) |
| Total tier 2 capital | | 234 |
| Total capital | | 11,739 |

## Capital requirements of the Banking Group

| Unaudited 30/09/2017 | Exposure at default NZ$m | Risk weighted exposure or implied risk weighted exposure[2] NZ$m | Total capital requirement NZ$m |
|---|---|---|---|
| Exposures subject to internal ratings based approach | 160,456 | 57,268 | 4,581 |
| Specialised lending exposures subject to slotting approach | 11,631 | 10,472 | 838 |
| Exposures subject to standardised approach | 1,915 | 479 | 38 |
| Equity exposures | 8 | 32 | 3 |
| Other exposures | 3,553 | 1,674 | 134 |
| Agri business supervisory adjustment | n/a | 1,363 | 109 |
| Total credit risk | 177,563 | 71,288 | 5,703 |
| Operational risk | n/a | 5,805 | 464 |
| Market risk | n/a | 4,549 | 364 |
| Total | 177,563 | 81,642 | 6,531 |

1 Certain instruments issued by the Bank qualify as tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements. Fixing the base at the nominal amount of such instruments outstanding at 31 December 2012, their recognition is capped at 20% of that base from 1 January 2017; and from 1 January 2018 onwards these instruments will not be included in regulatory capital.

2 Total credit risk weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

# NOTES TO THE FINANCIAL STATEMENTS

## Implementation of the advanced internal ratings based approach to credit risk measurement

The Banking Group adheres to the standards of risk grading and risk quantification as set out for Internal Ratings Based (IRB) banks in the RBNZ document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B).

Under this IRB Framework banks use their own measures for calculating the level of credit risk associated with customers and exposures, by way of the primary components of:

*Probability of Default (PD)*: An estimate of the level of risk of borrower default graded by way of rating models used both at loan origination and for ongoing monitoring.

*Exposure at Default (EAD)*: The expected facility exposure at default. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

*Loss Given Default (LGD)*: An estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD. For Retail Mortgage exposures the Bank is required to apply the downturn LGDs according to loan to value (LVR) bands as set out in BS2B. For farm lending exposures the Banking Group is required to adopt RBNZ prescribed downturn LVR based LGDs, along with a minimum maturity of 2.5 years and the removal of the firm-size adjustment.

For exposures classified under Specialised Lending, the Banking Group uses slotting tables approved by the RBNZ rather than internal estimates.

The exceptions to IRB treatment are three minor portfolios where, due to systems constraints, determining these IRB risk estimates is not currently feasible or appropriate. Risk weights for these exposures are calculated under a separate treatment as set out in the RBNZ document *Capital Adequacy Framework (Standardised Approach)* (BS2A).

## Classification of Banking Group exposures according to rating approach

***Internal ratings based approach***

| IRB Asset Class | Borrower Type | Rating Approach |
|---|---|---|
| Sovereign | Crown | IRB - Advanced |
| | RBNZ | IRB - Advanced |
| | Any other sovereign and its central bank | IRB - Advanced |
| Bank | Registered banks | IRB - Advanced |
| Corporate | Corporation, partnerships or proprietorships that do not fit any other asset classification | IRB - Advanced |
| | Corporate Small to Medium Enterprises ("SME") with turnover of less than NZ$50 million | IRB - Advanced |
| Retail Mortgages | Individuals' borrowings against residential property | IRB - Advanced |
| Other Retail | Other lending to individuals (including credit cards) | IRB - Advanced |
| | SME business borrowers | IRB - Advanced |
| Corporate sub-class - Specialised lending | Project finance | IRB - Slotting |
| | Income producing real estate | IRB - Slotting |
| Equity | | IRB |
| Other assets | All other assets not falling within any of the above classes | IRB |

***Standardised approach***

| Exposure class | Exposure Type | Reason for Standardised Approach | Future Treatment |
|---|---|---|---|
| Corporate | Merchant card prepayment exposures | System constraints | Move to IRB |
| | Corporate credit cards | System constraints | Move to IRB |
| Bank | Qualifying Central Counterparty (QCCP) | Required by Basel III | Standardised |

# NOTES TO THE FINANCIAL STATEMENTS

### Controls surrounding credit risk rating systems

The term "Rating Systems" covers all of the methods, processes, controls, data collection and technology that support the assessment of credit risk, the assignment of internal credit risk ratings and the quantification of associated default and loss estimates.

All material aspects of the Rating Systems and risk estimate processes are governed by the Banking Group's Risk Committee. Risk grades are an integral part of reporting to senior management and executives. Management and staff of credit risk functions, in conjunction with the relevant Retail and Wholesale Risk Committees, regularly assess the performance of the rating systems, identify any areas for improvement and monitor progress on previously identified development work needed.

The Banking Group's Rating Systems are governed by a comprehensive framework of controls that operate at the business unit and support centres, and through central audit and validation processes. All policies, model designs, model reviews, methodologies, validations, responsibilities, systems and processes supporting the ratings systems are fully documented.

The Banking Group's Retail and Wholesale ratings functions work closely with the Ultimate Parent Bank's risk ratings functions, are independent of operational lending activities and are responsible for the ratings strategies and ongoing management of credit risk models within New Zealand. The annual review of models used across the Banking Group is a function undertaken by the ANZ Decision Model Validation Unit, which is also independent of credit risk operational functions and is responsible for overseeing the design, implementation and performance of all rating models in the Banking Group.

The target approach to modelling for the Banking Group is to deploy the model most suitable for the environment. At present this involves an approach to modelling that combines models developed in New Zealand and models developed by the Ultimate Parent Bank, tested and validated for use in New Zealand, as appropriate.

### Capital requirements by asset class under the IRB approach

| Unaudited 30/09/2017 | Total exposure or principal amount NZ$m | Exposure at default NZ$m | Exposure-weighted LGD used for the capital calculation % | Exposure-weighted risk weight % | Risk weighted exposure NZ$m | Total capital requirement NZ$m |
|---|---|---|---|---|---|---|
| **On-balance sheet exposures** | | | | | | |
| Corporate | 35,231 | 35,336 | 34 | 56 | 20,977 | 1,678 |
| Sovereign | 11,309 | 11,030 | 5 | 1 | 99 | 8 |
| Bank | 6,507 | 5,804 | 58 | 19 | 1,177 | 94 |
| Retail mortgages | 70,088 | 70,314 | 19 | 21 | 15,503 | 1,240 |
| Other retail | 5,211 | 5,302 | 74 | 94 | 5,300 | 424 |
| Total on-balance sheet exposures | 128,346 | 127,786 | 26 | 32 | 43,056 | 3,444 |
| **Off-balance sheet exposures** | | | | | | |
| Corporate | 12,471 | 10,025 | 47 | 47 | 4,999 | 400 |
| Sovereign | 128 | 97 | 5 | 1 | 1 | - |
| Bank | 1,410 | 1,146 | 51 | 17 | 205 | 16 |
| Retail mortgages | 8,066 | 8,468 | 16 | 14 | 1,258 | 101 |
| Other retail | 5,591 | 5,609 | 79 | 56 | 3,354 | 268 |
| Total off-balance sheet exposures | 27,666 | 25,345 | 44 | 37 | 9,817 | 785 |
| **Market related contracts** | | | | | | |
| Corporate | 114,726 | 3,171 | 61 | 80 | 2,690 | 215 |
| Sovereign | 17,002 | 82 | 5 | 31 | 27 | 2 |
| Bank | 1,028,806 | 4,072 | 62 | 39 | 1,678 | 135 |
| Total market related contracts | 1,160,534 | 7,325 | 61 | 57 | 4,395 | 352 |
| Total credit risk exposures subject to the IRB approach | 1,316,546 | 160,456 | 30 | 34 | 57,268 | 4,581 |

# NOTES TO THE FINANCIAL STATEMENTS

## IRB exposures by customer credit rating

| Unaudited 30/09/2017 | Probability of default % | Exposure at default NZ$m | Exposure-weighted LGD used for the capital calculation % | Exposure-weighted risk weight % | Risk weighted exposure NZ$m | Total capital requirement NZ$m |
|---|---|---|---|---|---|---|
| **Corporate** | | | | | | |
| 0 - 2 | 0.06 | 6,174 | 62 | 45 | 2,972 | 238 |
| 3 - 4 | 0.33 | 21,429 | 36 | 40 | 9,112 | 729 |
| 5 | 1.02 | 13,986 | 33 | 60 | 8,840 | 707 |
| 6 | 2.30 | 4,833 | 36 | 83 | 4,248 | 340 |
| 7 - 8 | 15.52 | 1,711 | 39 | 161 | 2,919 | 233 |
| Default | 100.00 | 399 | 46 | 136 | 575 | 46 |
| Total corporate exposures | 2.04 | 48,532 | 39 | 56 | 28,666 | 2,293 |
| **Sovereign** | | | | | | |
| 0 | 0.01 | 11,075 | 5 | 1 | 125 | 10 |
| 1 - 8 | 0.02 | 134 | 5 | 2 | 2 | - |
| Total sovereign exposures | 0.01 | 11,209 | 5 | 1 | 127 | 10 |
| **Bank** | | | | | | |
| 0 | 0.03 | 60 | 65 | 18 | 11 | 1 |
| 1 | 0.03 | 9,991 | 58 | 25 | 2,634 | 211 |
| 2 - 4 | 0.11 | 969 | 64 | 40 | 412 | 33 |
| 5 - 8 | 1.26 | 2 | 65 | 115 | 3 | - |
| Total bank exposures | 0.04 | 11,022 | 59 | 26 | 3,060 | 245 |
| **Retail mortgages** | | | | | | |
| 0 - 3 | 0.20 | 21,487 | 12 | 5 | 1,228 | 98 |
| 4 | 0.46 | 30,842 | 18 | 15 | 4,835 | 387 |
| 5 | 0.92 | 21,044 | 24 | 32 | 7,061 | 565 |
| 6 | 1.98 | 4,811 | 27 | 62 | 3,178 | 254 |
| 7 - 8 | 5.02 | 395 | 28 | 100 | 421 | 34 |
| Default | 100.00 | 203 | 21 | 18 | 38 | 3 |
| Total retail mortgages exposures | 0.88 | 78,782 | 19 | 20 | 16,761 | 1,341 |
| **Other retail** | | | | | | |
| 0 - 2 | 0.10 | 584 | 77 | 50 | 306 | 25 |
| 3 - 4 | 0.26 | 4,883 | 78 | 54 | 2,811 | 225 |
| 5 | 1.01 | 1,856 | 73 | 74 | 1,458 | 117 |
| 6 | 2.18 | 1,807 | 73 | 90 | 1,730 | 138 |
| 7 - 8 | 8.06 | 1,712 | 83 | 128 | 2,317 | 185 |
| Default | 100.00 | 69 | 78 | 45 | 32 | 2 |
| Total other retail exposures | 2.56 | 10,911 | 77 | 75 | 8,654 | 692 |
| Total credit risk exposures subject to the IRB approach | 1.23 | 160,456 | 30 | 34 | 57,268 | 4,581 |

Credit risk exposures subject to the IRB approach have been derived in accordance with BS2B and other relevant correspondence with RBNZ setting out prescribed credit risk estimates.

# NOTES TO THE FINANCIAL STATEMENTS

## Specialised lending subject to the slotting approach

| Unaudited 30/09/2017 | Exposure at default NZ$m | Risk weight % | Risk weighted exposure NZ$m | Total capital requirement NZ$m |
|---|---|---|---|---|
| **On-balance sheet exposures** | | | | |
| Strong | 3,859 | 70 | 2,864 | 229 |
| Good | 5,815 | 90 | 5,547 | 444 |
| Satisfactory | 641 | 115 | 782 | 63 |
| Weak | 75 | 250 | 197 | 15 |
| Default | 42 | - | - | - |
| Total on-balance sheet exposures | 10,432 | 85 | 9,390 | 751 |

| | Exposure amount NZ$m | Exposure at default NZ$m | Average risk weight % | Risk weighted exposure NZ$m | Total capital requirement NZ$m |
|---|---|---|---|---|---|
| **Off-balance sheet exposures** | | | | | |
| Undrawn commitments and other off balance sheet exposures | 1,148 | 1,101 | 81 | 945 | 76 |
| Market related contracts | 2,126 | 98 | 132 | 137 | 11 |
| Total off-balance sheet exposures | 3,274 | 1,199 | 85 | 1,082 | 87 |

Specialised lending exposures subject to the slotting approach have been calculated in accordance with BS2B.

The supervisory categories of specialised lending above are associated with specific risk-weights. These categories broadly correspond to the following external credit assessments using Standard & Poor's rating scale, Strong: BBB- or better, Good: BB+ or BB, Satisfactory: BB- or B+ and Weak: B to C-.

## Credit risk exposures subject to the standardised approach

| Unaudited 30/09/2017 | Exposure at default NZ$m | Risk weight % | Risk weighted exposure NZ$m | Total capital requirement NZ$m |
|---|---|---|---|---|
| **On-balance sheet exposures** | | | | |
| Corporates | 105 | 78 | 86 | 7 |
| Default | 1 | 150 | 1 | - |
| Total on-balance sheet exposures | 106 | 78 | 87 | 7 |

| | Exposure amount NZ$m | Average credit conversion factor % | Exposure at default NZ$m | Average risk weight % | Risk weighted exposure NZ$m | Total capital requirement NZ$m |
|---|---|---|---|---|---|---|
| **Off-balance sheet exposures** | | | | | | |
| Undrawn commitments and other off balance sheet exposures | 563 | 57 | 323 | 96 | 328 | 26 |
| Market related contracts | 343,810 | - | 1,486 | 4 | 64 | 5 |
| Total off balance sheet | 344,373 | n/a | 1,809 | 20 | 392 | 31 |

Credit exposures subject to the Standardised Approach have been calculated in accordance with BS2A.

# NOTES TO THE FINANCIAL STATEMENTS

## Equity exposures

| Unaudited 30/09/2017 | Exposure at default NZ$m | Risk weight % | Risk weighted exposure NZ$m | Total capital requirement NZ$m |
|---|---|---|---|---|
| All equity holdings not deducted from capital | 8 | 400 | 32 | 3 |

Equity exposures have been calculated in accordance with BS2B.

## Other exposures

| Unaudited 30/09/2017 | Exposure at default NZ$m | Risk weight % | Risk weighted exposure NZ$m | Total capital requirement NZ$m |
|---|---|---|---|---|
| Cash | 198 | - | - | - |
| New Zealand dollar denominated claims on the Crown and the RBNZ | 1,776 | - | - | - |
| Other assets | 1,579 | 100 | 1,674 | 134 |
| Total other IRB credit risk exposures | 3,553 | 44 | 1,674 | 134 |

Other exposures have been calculated in accordance with BS2B.

### Credit risk mitigation

The Banking Group assesses the integrity and ability of counterparties to meet their contractual financial obligations for repayment. The Banking Group generally takes collateral security in the form of real property or a security interest in personal property, except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance, in the form of housing loans, is generally secured against real estate while short term revolving consumer credit is generally unsecured.

As at 30 September 2017, under the IRB approach, the Banking Group had NZ$1,038 million of Corporate exposures covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

### Operational risk

The Banking Group uses the Advanced Measurement Approach for determining its regulatory capital requirement for operational risk calculated in accordance with BS2B. As at 30 September 2017 the Banking Group had an implied risk weighted exposure of NZ$5,805 million for operational risk and an operational risk capital requirement of NZ$464 million.

Operational risk capital is modelled at a New Zealand geographic level and then distributed and adjusted for the business environment and internal controls down to the business units using the Risk Scenario Methodology. This methodology ensures that there is sufficient operational risk capital held as a buffer for rare and severe unexpected operational loss events that may impact the New Zealand business. The Methodology applies a combination of expert judgement, business unit risk profiles, audit findings, and internal and external loss events to derive a series of business specific Risk Scenarios that are applied to the capital model. The Risk Scenario approach

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

The Banking Group's operating risk capital is calculated using the Ultimate Parent Bank’s methodology, but with standalone New Zealand inputs to ensure there are no diversification benefits.

The Banking Group does not incorporate any insurance mitigation impact into its capital number. Accordingly, there are no insurance related questions contained within the Risk Scenario Methodology.

# NOTES TO THE FINANCIAL STATEMENTS

### Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B. The peak end-of-day market risk exposures are for the six months ended 30 September 2017.

| | Implied risk weighted exposure | | Aggregate capital charge | | Peak |
|---|---|---|---|---|---|
| | Period end | Peak | Period end | Peak | occurred on |
| **Unaudited 30/09/2017** | **NZ$m** | **NZ$m** | **NZ$m** | **NZ$m** | |
| Interest rate risk | 4,502 | 7,271 | 360 | 582 | 6/06/2017 |
| Foreign currency risk | 46 | 152 | 4 | 12 | 20/06/2017 |
| Equity risk | 1 | 1 | - | - | 30/09/2017 |
| | 4,549 | | 364 | | |

### Capital for other material risks

The Banking Group has an Internal Capital Adequacy Assessment Process (ICAAP) which complies with the requirements of the Bank's Conditions of Registration.

Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier 1 and total capital ratios. The other material risks identified by the Banking Group include pension risk, insurance risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk, value in-force risk, business retention risk and software risk.

The Banking Group's internal capital allocation for these other material risks is NZ$421 million. (2016: NZ$441 million).

### Capital adequacy of the Ultimate Parent Bank

### Basel III capital ratios

| | Overseas Banking Group | | Ultimate Parent Bank (Extended Licensed Entity) | |
|---|---|---|---|---|
| | **30/09/2017** | **30/09/2016** | **30/09/2017** | **30/09/2016** |
| **Unaudited** | | | | |
| Common equity tier 1 capital | 10.6% | 9.6% | 10.5% | 9.7% |
| Tier 1 capital | 12.6% | 11.8% | 12.7% | 12.1% |
| Total capital | 14.8% | 14.3% | 14.8% | 14.7% |

For calculation of minimum capital requirements under Pillar 1 (Capital Requirements) of the Basel Accord, APRA has accredited the Overseas Banking Group to use the Advanced Internal Ratings Based (AIRB) methodology for calculation of credit risk weighted assets and the Advanced Measurement Approach (AMA) for the operational risk weighted asset equivalent.

Under prudential regulations, the Overseas Banking Group is required to maintain a Prudential Capital Ratio (PCR) as determined by APRA. The Overseas Banking Group exceeded the PCR set by APRA as at 30 September 2017 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2017. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 30 September 2017, in accordance with APS 330: *Public Disclosure of Prudential Information*, discloses capital adequacy ratios and other prudential information. This document can be accessed at the website anz.com.

# NOTES TO THE FINANCIAL STATEMENTS

### Residential mortgages by loan-to-valuation ratio (LVR)

As required by the RBNZ, LVRs are calculated as the current exposure secured by a residential mortgage divided by the Banking Group's valuation of the security property at origination of the exposure. Off balance sheet exposures include undrawn and partially drawn residential mortgage loans as well as commitments to lend. Commitments to lend are formal offers for housing lending which have been accepted by the customer.

| | 30/09/2017 | | |
|---|---|---|---|
| **Unaudited** | **On-balance sheet NZ$m** | **Off-balance sheet NZ$m** | **Total NZ$m** |
| **LVR range** | | | |
| Does not exceed 60% | 33,292 | 5,227 | 38,519 |
| Exceeds 60% and not 70% | 15,974 | 1,346 | 17,320 |
| Exceeds 70% and not 80% | 16,725 | 1,168 | 17,893 |
| Does not exceed 80% | 65,991 | 7,741 | 73,732 |
| Exceeds 80% and not 90% | 2,648 | 137 | 2,785 |
| Exceeds 90% | 1,449 | 188 | 1,637 |
| Total | 70,088 | 8,066 | 78,154 |

### Reconciliation of mortgage related amounts

| **Unaudited** | **Note** | **30/09/2017 NZ$m** |
|---|---|---|
| Term loans - housing | 13 | 72,524 |
| Less: fair value hedging adjustment | | (44) |
| Less: housing loans made to corporate customers | | (2,414) |
| Add: unsettled re-purchases of mortgages from the NZ Branch | | 22 |
| On-balance sheet retail mortgage exposures subject to the IRB approach | 18 | 70,088 |
| Add: off-balance sheet retail mortgage exposures subject to the IRB approach | | 8,066 |
| Total retail mortgage exposures subject to the IRB approach (as per LVR analysis) | | 78,154 |

## 27. SUBSIDIARIES

The following table lists the principal subsidiaries of the Bank. Principal subsidiaries are those that have transactions or balances with parties outside the Banking Group. All subsidiaries are 100% owned and incorporated in New Zealand.

| **Principal subsidiaries** | **Nature of business** |
|---|---|
| ANZ Investment Services (New Zealand) Limited | Funds management |
| ANZ New Zealand (Int'l) Limited | Finance |
| ANZ New Zealand Investments Limited | Funds management |
| ANZ New Zealand Securities Limited | On-line share broker |
| ANZNZ Covered Bond Trust[1] | Securitisation entity |
| Arawata Assets Limited | Property |
| Karapiro Investments Limited | Asset finance |
| Kingfisher NZ Trust 2008-1[1] | Securitisation entity |
| OnePath Life (NZ) Limited | Insurance |
| UDC Finance Limited | Asset finance |

[1] The Banking Group does not own ANZNZ Covered Bond Trust and Kingfisher NZ Trust 2008-1. Control exists as the Banking Group retains substantially all the risks and rewards of the operations. Details of the Banking Group's interest in consolidated structured entities is included in note 28.

# NOTES TO THE FINANCIAL STATEMENTS

## 28. STRUCTURED ENTITIES, TRANSFERRED FINANCIAL ASSETS, FIDUCIARY ACTIVITIES AND INSURANCE

**Structured entities**

The Banking Group's involvement with structured entities is mainly through securitisations and its funds management activities, which are outlined further below. The Banking Group has involvement with structured entities that may be established either by the Banking Group or by a third party.

**Consolidated structured entities**

*Kingfisher NZ Trust 2008-1 (the Kingfisher Trust)*

The Banking Group has established the Kingfisher Trust as an in-house residential mortgage backed securities facility that can issue securities meeting the RBNZ criteria to use as collateral in repurchase transactions with the RBNZ.

These assets do not qualify for derecognition as the Bank retains substantially all of the risks and rewards of the transferred assets.

As at 30 September 2017 and 30 September 2016 the Banking Group had not entered into any repurchase agreements with the RBNZ for residential mortgage backed securities and therefore no collateral had been accepted by the RBNZ under this facility.

*ANZNZ Covered Bond Trust (the Covered Bond Trust)*

Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied.

The Banking Group continues to recognise the assets of the Covered Bond Trust on its balance sheet as, although they are pledged as security for covered bonds, the Bank retains substantially all the risks and rewards of ownership.

**Unconsolidated securitisations**

The Banking Group also has an interest in unconsolidated securitisation entities through the provision of funding facilities or holding bonds or notes issued by such entities. The Banking Group's exposure to these entities is not material.

**Transferred financial assets**

In the normal course of business the Banking Group enters into transactions where it transfers financial assets directly to third parties or to structured entities. These transfers may give rise to the Banking Group fully, or partially, derecognising those financial assets - depending on the Banking Group's exposure to the risks and rewards or control over the transferred assets. If the Banking Group retains substantially all of the risk and rewards of a transferred asset, the transfer does not qualify for derecognition and the asset remains on the Banking Group's balance sheet in its entirety.

*Assets transferred to the Kingfisher Trust and the Covered Bond Trust*

The Bank has purchased securities issued by both the Kingfisher Trust and the Covered Bond Trust in exchange for the transfer of the rights to the cash flows associated with the identified residential mortgages. As at 30 September 2017, NZ$20,551 million of assets were held in the Kingfisher Trust and the Covered Bond Trust (2016: NZ$19,656 million).

*Repurchase transactions*

Securities sold subject to repurchase agreements are not derecognised when substantially all the risks and rewards of ownership remain with the Bank. See note 21 for details of securities sold under agreements to repurchase. The amount of trading securities encumbered through repurchase agreements is shown in note 22. The carrying amount of the associated liabilities is not materially different to the amount of trading securities subject to the repurchase agreement.

# NOTES TO THE FINANCIAL STATEMENTS

### Funds management and other fiduciary activities

*Funds management*

Certain subsidiaries of the Bank act as trustee and/or manager for a number of unit trusts and investment and superannuation funds. The Banking Group provides private banking services to a number of clients, including investment advice and portfolio management. The Banking Group is not responsible for any decline in performance of the underlying assets of the investors due to market forces.

As funds under management are not controlled by the Banking Group, they are not included in these financial statements. The Banking Group derives fee and commission income from the sale and management of investment funds and superannuation schemes, unit trusts and the provision of private banking services to customers. The Banking Group derives commission income from the sale of third party funds management products.

Some funds under management are invested in products owned or securities issued by the Banking Group and are recorded as liabilities in the balance sheet. At 30 September 2017, NZ$3,964 million of funds under management were invested in the Banking Group's own products or securities (2016: NZ$3,698 million).

*Custodial services*

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

| | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| Kiwisaver | 11,047 | 9,295 |
| Bonus Bonds Scheme | 3,405 | 3,561 |
| Other managed funds | 1,984 | 1,924 |
| ANZ PIE Fund[1] | 1,381 | 953 |
| Discretionary Investment Management Service (DIMS)[2] | 7,193 | 7,007 |
| Other investment portfolios[2] | 3,480 | 3,745 |
| Total funds under management | 28,490 | 26,485 |
| Funds under custodial arrangements | 7,720 | 7,408 |
| Other funds held or managed subject to fiduciary responsibilities | 1,557 | 1,927 |
| Funds management fee income from structured entities | 170 | 156 |

1 The Banking Group established, and is considered to be the sponsor of, the ANZ PIE Fund. The ANZ PIE Fund invests only in deposits with the Bank. The Banking Group does not receive a management fee from, and does not have an interest in, the ANZ PIE Fund.
2 These funds are not structured entities as they are investment portfolios managed on behalf of customers.

*Provision of financial services*

Financial services provided by the Banking Group to entities which are involved in trust, custodial, funds management and other fiduciary activities are provided on arm's length terms and conditions and at fair value. Any assets purchased from such entities have been purchased on an arm's length basis and at fair value. The Banking Group does not have any affiliated insurance entities or affiliated insurance groups that are not members of the Banking Group.

Except for standard lending facilities provided in the normal course of business on arm's length terms, the Banking Group has not provided any funding to entities where trust, custodial, funds management or other fiduciary activities are established, marketed and/or sponsored by a member of the Banking Group (2016: nil).

### Insurance business

The Banking Group conducts insurance business through its subsidiary OnePath Life (NZ) Limited (OnePath Life).

The Banking Group's aggregate amount of insurance business comprises the total consolidated assets of OnePath Life of NZ$921 million (2016: NZ$926 million), which is 0.6% (2016: 0.6%) of the total consolidated assets of the Banking Group.

### Risk management

The Bank and subsidiaries of the Bank participating in the activities identified above have in place policies and procedures to ensure that those activities are conducted in an appropriate manner. Should adverse conditions arise, it is considered that these policies and procedures will minimise the possibility that these conditions will adversely impact the Bank or the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management.

# NOTES TO THE FINANCIAL STATEMENTS

## 29. ASSETS AND LIABILITIES HELD FOR SALE

On 11 January 2017, the Bank announced that it had entered into a conditional agreement to sell UDC to HNA Group. The sale is subject to certain conditions (including regulatory approvals) and the Banking Group is working with HNA Group towards completion of the sale.

The assets and liabilities of UDC are classified as held for sale as at 30 September 2017. The following assets and liabilities of UDC held for sale are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets and financial assets which are specifically exempt from this requirement.

| | **30/09/2017 NZ$m** |
|---|---|
| Net loans and advances | 2,912 |
| Goodwill | 133 |
| Other assets | 20 |
| Total UDC assets held for sale | 3,065 |
| | |
| Deposits and other borrowings | 1,039 |
| Payables and other liabilities | 33 |
| Current tax liabilities | 24 |
| Deferred tax liabilities | (9) |
| Employee entitlements | 1 |
| Total UDC liabilities held for sale | 1,088 |

# NOTES TO THE FINANCIAL STATEMENTS

## 30. RELATED PARTY DISCLOSURES

### Key management personnel

Key management personnel (KMP) are defined as directors and those executives who report directly to the Bank's Chief Executive Officer with responsibility for the strategic direction and management of a major revenue generating division or who control material revenue and expenses.

Loans made to directors and other KMP are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate.

All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services. All such transactions that have occurred with KMP and their related parties have been trivial or domestic in nature. In this context, transactions are only disclosed when they are considered of interest to the users of the financial statements in making and evaluating decisions about the allocation of scarce resources.

| | Year to 30/09/2017 NZ$000 | Year to 30/09/2016 NZ$000 |
|---|---|---|
| **Key management personnel compensation** | | |
| Salaries and short-term employee benefits | 11,430 | 11,382 |
| Post-employment benefits | 480 | 280 |
| Other long-term benefits | 60 | 88 |
| Share-based payments expense | 3,515 | 4,123 |
| Total compensation of key management personnel | 15,485 | 15,873 |
| **Loans to, and securities held by, key management personnel and their related parties** | | |
| Loans | 5,102 | 7,373 |
| Unsubordinated debt | 520 | 520 |
| Subordinated debt | 190 | 190 |

### Transactions with other related parties

The Bank and Banking Group undertake transactions with the Immediate Parent Company, the Ultimate Parent Bank, other members of the Overseas Banking Group and associates.

These transactions principally consist of funding and hedging transactions, the provision of other financial and investment services, technology and process support, and compensation for share based payments made to Banking Group employees. Transactions with related parties outside of the Banking Group are conducted on an arm's length basis and on normal commercial terms.

In addition the Bank undertakes similar transactions with subsidiaries, which are eliminated in the consolidated Banking Group financial statements. Included within the Bank's transactions with subsidiaries is the provision of administrative functions to some subsidiaries for which no payments have been made.

**Transactions with related parties**

| | Year to 30/09/2017 NZ$m | Year to 30/09/2016 NZ$m |
|---|---|---|
| **Ultimate Parent Bank and subsidiaries not part of the Banking Group** | | |
| Interest income | 32 | 49 |
| Interest expense | 146 | 87 |
| Fee income | 14 | 19 |
| Gain/(loss) on sale of mortgages to the NZ Branch | (1) | 1 |
| Other operating income | 23 | 19 |
| Operating expenses | 46 | 64 |
| Mortgages sold to the NZ Branch | 481 | 697 |
| **Immediate Parent Company** | | |
| Interest expense | 1 | 1 |
| **Associates** | | |
| Direct fee expense | 10 | 10 |
| Dividends received | 5 | 2 |
| Share of associates' profit | 5 | 5 |

# NOTES TO THE FINANCIAL STATEMENTS

**Balances with related parties**

| | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| **Ultimate Parent Bank and subsidiaries not part of the Banking Group** | | |
| Cash | 64 | 47 |
| Settlement balances receivable | 111 | 31 |
| Collateral paid | - | 375 |
| Derivative financial instruments | 2,623 | 4,361 |
| Other assets | 42 | 108 |
| **Immediate Parent Company** | | |
| Derivative financial instruments | 4 | - |
| **Associates** | | |
| Investments in associates | 7 | 7 |
| **Total due from related parties** | 2,851 | 4,929 |
| **Ultimate Parent Bank and subsidiaries not part of the Banking Group** | | |
| Settlement balances payable | 220 | 323 |
| Collateral received | 198 | - |
| Deposits and other borrowings | 11 | - |
| Derivative financial instruments | 2,486 | 4,818 |
| Payables and other liabilities | 31 | 32 |
| Subordinated debt | 1,951 | 1,951 |
| **Immediate Parent Company** | | |
| Deposits and other borrowings | 62 | 29 |
| **Associates** | | |
| Payables and other liabilities | 1 | 1 |
| **Total due to related parties** | 4,960 | 7,154 |

Balances due from / to related parties are unsecured. The Bank has provided guarantees and commitments to related parties as follows:

| | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| Financial guarantees provided to the Ultimate Parent Bank | 155 | 152 |
| Undrawn credit commitments provided to the Immediate Parent Company | 250 | 250 |

# NOTES TO THE FINANCIAL STATEMENTS

## 31. CAPITAL EXPENDITURE AND OPERATING LEASE COMMITMENTS

| | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| **Contracts for outstanding capital expenditure** | | |
| Not later than 1 year | 4 | 5 |
| **Future minimum lease payments under non-cancellable operating leases** | | |
| Not later than 1 year | 84 | 87 |
| Later than 1 year but not later than 5 years | 256 | 217 |
| Later than 5 years | 144 | 151 |
| Total operating lease commitments | 484 | 455 |
| Total commitments | 488 | 460 |

## 32. COMPENSATION OF AUDITORS

| | Year to 30/09/2017 NZ$000 | Year to 30/09/2016 NZ$000 |
|---|---|---|
| **Compensation of auditors (KPMG New Zealand)** | | |
| Audit or review of financial statements[1] | 2,227 | 2,219 |
| Other services: | | |
| Prudential and regulatory services[2] | 225 | 262 |
| Offer documents assurance or review | 146 | 100 |
| Other assurance services[3] | 95 | 52 |
| Total other services | 466 | 414 |
| Total compensation of auditors relating to the Banking Group | 2,693 | 2,633 |
| | | |
| Fees relating to certain managed funds and not recharged[4] | 46 | 48 |
| Total compensation of auditors | 2,739 | 2,681 |

1 Includes fees for both the audit of the annual financial statements and reviews of interim financial statements.
2 Includes fees for reviews and controls reports required by regulations.
3 Includes fees for controls reports, comfort letters and other agreed upon procedures engagements.
4 Amounts relate to the ANZ PIE Fund and certain other funds, and include fees for audits of annual financial statements and audits of summary financial statements for inclusion in offer documents, comfort letters and other agreed upon procedures engagements.

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

# NOTES TO THE FINANCIAL STATEMENTS

## 33. CONCENTRATIONS OF CREDIT RISK TO INDIVIDUAL COUNTERPARTIES

The Banking Group measures its concentration of credit risk using actual exposures for bank counterparties and limits for non bank counterparties. No account is taken of collateral, security and/or netting agreements which the Banking Group may hold in respect of the various counterparty exposures.

For the three months ended 30 September 2017 there were no individual counterparties (excluding connected parties, governments and banks with long term credit ratings of A- or above) where the Banking Group's period end or peak end-of-day credit exposure equalled or exceeded 10% of equity (as at the end of the period).

### Concentrations of credit risk to connected persons

Credit exposures to connected persons reported in the table below have been calculated partially on a bilateral net basis and partially on a gross basis. Netting has occurred (up to a limit of 125% of the Banking Group's tier 1 capital) in respect of certain transactions which are the subject of a bilateral netting agreement.

This information has been derived in accordance with the Bank's conditions of registration and the RBNZ document *Connected Exposures Policy* (BS8). The exposures are net of individual credit impairment allowances and exclude advances to connected persons of a capital nature.

| | 30/09/2017 | | 30/09/2016 | |
|---|---|---|---|---|
| | Amount NZ$m | % of Tier 1 Capital | Amount NZ$m | % of Tier 1 Capital |
| **Aggregate at end of year[1]** | | | | |
| Bank connected persons (on gross basis, before netting) | 8,074 | 70.2% | 9,349 | 81.3% |
| Less: amount netted off | 5,230 | 45.5% | 7,619 | 66.2% |
| Bank connected persons (on partial bilateral net basis) | 2,844 | 24.7% | 1,730 | 15.1% |
| Non-bank connected persons[2] | - | 0.0% | 1 | 0.0% |
| **Peak end-of-day for the year[3]** | | | | |
| Bank connected persons (on gross basis, before netting) | 8,382 | 72.9% | 9,352 | 81.3% |
| Less: amount netted off | 5,336 | 46.4% | 5,353 | 46.5% |
| Bank connected persons (on partial bilateral net basis) | 3,046 | 26.5% | 3,999 | 34.8% |
| Non-bank connected persons[2] | 1 | 0.0% | 4 | 0.0% |
| **Rating-contingent limit[4]** | | | | |
| Bank connected persons (on a gross basis, before netting) | n/a | 125.0% | n/a | 125.0% |
| Bank connected persons (on partial bilateral net basis) | n/a | 60.0% | n/a | 70.0% |
| Non-bank connected persons | n/a | 15.0% | n/a | 15.0% |

1 The Banking Group has amounts due from the Immediate Parent Company and the Ultimate Parent Bank and other entities within the Overseas Banking Group arising in the ordinary course of business. These balances arise primarily from unrealised gains on trading and hedging derivative financial instruments with the Ultimate Parent Bank. As at 30 September 2017, the gross exposures to the Immediate Parent Company were NZ$7 million (2016: NZ$3 million). As at 30 September 2017, the gross exposures to the Ultimate Parent Bank were NZ$8,067 million (2016: NZ$9,346 million).

2 Non-bank connected persons exposures comprise loans to directors of the Bank.

3 The Banking Group has complied with the limits on aggregate credit exposure (of a non-capital nature and net of individual provisions) to connected persons and non-bank connected persons, as set out in the Conditions of Registration, at all times during the year. The peak end-of-day credit exposure ratios for the year to connected persons are measured over Tier 1 Capital as at the end of the year. Previously Tier 1 Capital as at the beginning of the month in which the peak aggregate amount of credit exposure occurred was used to calculate the peak ratios, and comparative ratios have been updated. Both methods are allowed by the Order, and the change was made to make these disclosures consistent with private regulatory reporting submitted to the RBNZ.

4 Represents the maximum peak end-of-day aggregate credit exposures limit (of a non-capital nature and net of individual provisions) to all connected persons. This limit is based on the ratings applicable to the Bank's long term senior unsecured obligations payable in New Zealand in New Zealand dollars. Within the overall limit a sub-limit of 15% of Tier 1 Capital applies to aggregate credit exposures (exclusive of exposures of a capital nature and net of individual provisions) to non-bank connected persons. There have been no changes to these limits for the year ended 30 September 2017.

# NOTES TO THE FINANCIAL STATEMENTS

## 34. RISK MANAGEMENT FRAMEWORK

The Banking Group recognises the importance of effective risk management to its business success. Management is committed to achieving strong control and a distinctive risk management capability that enables the Banking Group business units to meet their performance objectives.

The Banking Group approaches risk through managing the various elements of the system as a whole rather than viewing them as independent and unrelated parts. The risk management division (Risk Management) is independent of the business, with clear delegations from the Board, and operates within a comprehensive framework comprising:

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

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

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

The risk management process is subject to oversight by the Risk Committee of the Ultimate Parent Bank Board. This includes the review of risk portfolios and the establishment of prudential policies and controls.

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

The Audit Committee has responsibility for ensuring the integrity of the Banking Group's financial controls, reporting systems and internal audit standards. It meets at least four times a year and reports directly to the Board. All members of the Audit Committee are non-executive directors.

**Financial risk management**

Refer to note 18 for detailed disclosures on the Banking Group's financial risk management policies.

**Operational Risk**

Operational risk is the risk arising from day to day operational activities which may result in direct or indirect loss. These losses may result from failure to comply with policies, procedures, laws and regulations, from fraud or forgery, from a breakdown in the availability or integrity of services, systems and information, or damage to the Banking Group's reputation.

Examples include failure to comply with policy and legislation, human error, natural disasters, fraud and other malicious acts. Where appropriate, risks are mitigated by insurance.

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

Business units have primary responsibility for the identification and management of operational risk with executive oversight provided through business unit Risk Forums. The Bank's Operational Risk Executive Committee (OREC) undertakes the governance function through the bi-monthly monitoring of operational risk performance across the Banking Group. The Board and Risk Management conduct effective oversight through the approval of operational risk policies and frameworks and monitoring key operational risk metrics.

**Compliance**

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

Risk Management, in conjunction with business unit staff ensure the Banking Group operates within a compliance infrastructure and framework that incorporates new and changing business obligations and processes.

# NOTES TO THE FINANCIAL STATEMENTS

The compliance policies and their supporting framework seek to minimise material risks to the Banking Group's reputation and value that could arise from non-compliance with laws, regulations, industry codes and internal standards and policies. Business units have primary responsibility for the identification and management of compliance. Risk Management provides policy and framework, measurement, monitoring and reporting, as well as leadership in areas such as anti-money laundering procedures and matters of prudential compliance. The Bank's OREC, the Chief Risk Officer, the Board and the Risk Committee of the Ultimate Parent Bank Board conduct board and executive oversight.

**Internal Audit**

Internal Audit is a function independent of management whose role is to provide the Board and management with an effective and independent appraisal of the internal controls established by management. Operating under a Board approved Charter, the reporting line for the outcomes of work conducted by Internal Audit is direct to the Chair of the Audit Committee, with a direct communication line to the Chief Executive Officer and the external auditor.

The Internal Audit Plan is developed utilising a risk based approach and is refreshed on a quarterly basis. The Audit Committee approves the plan.

All audit activities are conducted in accordance with local and international auditing standards, and the results of the activities are reported to the Audit Committee, Risk Committee and management. These results influence the performance assessment of business heads.

Furthermore, Internal Audit monitors the remediation of audit issues and reports the current status of any outstanding audits.

# HISTORICAL SUMMARY OF FINANCIAL STATEMENTS

| | Year to 30/09/2017 NZ$m | Year to 30/09/2016 NZ$m | Year to 30/09/2015 NZ$m | Year to 30/09/2014 NZ$m | Year to 30/09/2013 NZ$m |
|---|---|---|---|---|---|
| Interest income | 6,198 | 6,423 | 6,926 | 6,272 | 5,957 |
| Interest expense | 3,161 | 3,421 | 4,051 | 3,529 | 3,344 |
| Net interest income | 3,037 | 3,002 | 2,875 | 2,743 | 2,613 |
| Non-interest income | 938 | 852 | 1,175 | 1,085 | 823 |
| Operating income | 3,975 | 3,854 | 4,050 | 3,828 | 3,436 |
| Operating expenses | 1,468 | 1,599 | 1,512 | 1,489 | 1,512 |
| Credit impairment charge / (release) | 62 | 150 | 74 | (16) | 63 |
| **Profit before income tax** | 2,445 | 2,105 | 2,464 | 2,355 | 1,861 |
| Income tax expense | 680 | 570 | 681 | 639 | 490 |
| **Profit after income tax** | 1,765 | 1,535 | 1,783 | 1,716 | 1,371 |
| | | | | | |
| Dividends paid | (1,695) | (1,363) | (1,760) | (2,353) | (1,065) |
| Share capital issued | - | - | 675 | 970 | 300 |

| | As at 30/09/2017 NZ$m | As at 30/09/2016 NZ$m | As at 30/09/2015 NZ$m | As at 30/09/2014 NZ$m | As at 30/09/2013 NZ$m |
|---|---|---|---|---|---|
| Total impaired assets | 357 | 426 | 382 | 634 | 901 |
| Total assets | 153,973 | 160,819 | 147,527 | 128,915 | 120,444 |
| Total liabilities | 141,192 | 148,109 | 135,074 | 117,134 | 108,990 |
| Equity | 12,781 | 12,710 | 12,453 | 11,781 | 11,454 |

The amounts included in this summary have been taken from the audited financial statements of the Banking Group.

# GENERAL DISCLOSURES

## General Matters

The Disclosure Statement has been issued in accordance with the Order.

The Bank is incorporated under the Companies Act 1993. The Bank is wholly owned by its Immediate Parent Company and ultimately by the Ultimate Parent Bank. The Immediate Parent Company of the Bank is incorporated in New Zealand and owned by ANZ Funds Pty Limited and the Ultimate Parent Bank (both incorporated in Australia). The address for service for the Ultimate Parent Bank is ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

The Immediate Parent Company has the power under the Bank's Constitution to appoint any person as a Director of the Bank either to fill a casual vacancy or as an additional Director or to remove any person from the office of Director, from time to time by giving written notice to the Bank. No appointment of a new Director may occur unless the RBNZ confirms that it does not object to the appointment.

## Financial Support

The Ultimate Parent Bank may not provide financial support in breach of the Australian Banking Act 1959 (the Act). Under the Act:

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

Under APRA's Prudential Standards, the Ultimate Parent Bank's ability to provide financial support to the Bank is subject to certain requirements:

- The Ultimate Parent Bank should not undertake any third party dealings with the prime purpose of supporting the business of the Bank.
- The Ultimate Parent Bank should not hold unlimited exposures (should be limited as to specified time and amount) in the Bank (e.g. not provide a general guarantee covering any of the Bank's obligations).
- The Ultimate Parent Bank should not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default by the Ultimate Parent Bank on its obligations.
- The level of exposure of the Ultimate Parent Bank's Level 1 capital base to the Bank should not exceed:
  - 50% on an individual exposure basis or
  - 150% in aggregate (being exposures to all similar regulated entities related to the Ultimate Parent Bank).

In addition, APRA has reviewed the level of financial exposures that can be provided to the respective New Zealand banking subsidiaries and branches (New Zealand operations) of the four Australian parent banks, including the Ultimate Parent Bank.

APRA has confirmed that by 1 January 2021 no more than 5% of the Ultimate Parent Bank's Level 1 Tier 1 capital base can comprise non-equity exposures to its New Zealand operations during ordinary times. Exposures in excess of this limit as at 1 January 2016 must be reduced in equal percentages over the five year transition period and may not increase above the exposures as at 30 June 2015. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to the Bank during times of financial stress.

The Ultimate Parent Bank established a New Zealand branch which was registered on 5 January 2009. The Bank sells, from time-to-time, residential mortgages into the NZ Branch to provide funding for the Bank's business. As at 30 September 2017, the NZ Branch held approximately NZ$4.3 billion of residential mortgages. To satisfy APRA's requirements described above, the Bank intends to repay this funding at approximately NZ$1.6 billion per annum over the transition period ending 31 December 2020.

APRA has also stated that contingent funding support by the Ultimate Parent Bank to the Bank during times of financial stress must be provided on terms that are acceptable to APRA and the Ultimate Parent Bank's exposures to the Bank and its other New Zealand operations must not exceed 50% of the Ultimate Parent Bank's Level 1 Tier 1 capital base. At present, only covered bonds meet APRA's criteria for contingent funding. On this basis, the Ultimate Parent Bank believes it will be able to continue to provide financial support to the Bank.

Further, from 1 July 2017, APRA's Level 3 Conglomerates regulations became effective which limit the financial and operational assistance the Ultimate Parent Bank can provide the Bank.

In determining the acceptable level of financial and operational exposure to the Bank, the Board of the Ultimate Parent Bank should have regard to:

- the exposures that would be approved for third parties of broadly equivalent credit status
- the impact on the Ultimate Parent Bank's capital and liquidity position and
- the Ultimate Parent Bank's ability to continue operating in the event of a failure by the Bank.

These requirements are not expected to place additional restrictions on the Ultimate Parent Bank's ability to provide financial or operational support to the Bank.

## Guarantors

No material obligations of the Bank are guaranteed as at 15 November 2017.

# GENERAL DISCLOSURES

### ANZNZ Covered Bond Trust

Certain debt securities (Covered Bonds) issued by the Bank's wholly owned subsidiary, ANZ New Zealand (Int'l) Limited, are guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor has guaranteed the payment of interest and principal of Covered Bonds with a carrying value as at 30 September 2017 of NZ$5,325 million, pursuant to a guarantee which is secured over a pool of assets. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations. The Covered Bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Details of the pool of assets that secure this guarantee are provided in note 28.

## Credit Rating Information

As at 15 November 2017 the Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars. On 19 June 2017, Moody's Investors Service downgraded the Bank's credit rating from Aa3 to A1 and changed the outlook on the Bank from Negative to Stable.

The Bank's credit ratings are:

| Rating Agency | Current Credit Rating | Qualification |
|---|---|---|
| Standard & Poor's | AA- | Outlook Negative |
| Moody's Investors Service | A1 | Outlook Stable |
| Fitch Ratings | AA- | Outlook Stable |

The following table describes the credit rating grades available:

| | Standard & Poor's | Moody's Investors Service | Fitch Ratings |
|---|---|---|---|
| **The following grades display investment grade characteristics:** | | | |
| Ability to repay principal and interest is extremely strong. This is the highest investment category. | AAA | Aaa | AAA |
| Very strong ability to repay principal and interest. | AA | Aa | AA |
| Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions. | A | A | A |
| Adequate ability to repay principal and interest. More vulnerable to adverse changes. | BBB | Baa | BBB |
| **The following grades have predominantly speculative characteristics:** | | | |
| Significant uncertainties exist which could affect the payment of principal and interest on a timely basis. | BB | Ba | BB |
| Greater vulnerability and therefore greater likelihood of default. | B | B | B |
| Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions. | CCC | Caa | CCC |
| Highest risk of default. | CC to C | Ca to C | CC to C |
| Obligations currently in default. | D | - | RD & D |

Credit ratings from Standard & Poor's and Fitch Ratings may be modified by the addition of "+" or "-" to show the relative standing within the "AA" to "B" categories. Moody's Investors Service applies numerical modifiers 1, 2, and 3 to each of the "Aa" to "Caa" classifications, with 1 indicating the higher end and 3 the lower end of the rating category.

# CONDITIONS OF REGISTRATION

**Conditions of Registration, applicable as at 30 September 2017. These Conditions of Registration have applied from 1 October 2016.**

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

1. That-
   (a) the Total capital ratio of the banking group is not less than 8%;
   (b) the Tier 1 capital ratio of the banking group is not less than 6%;
   (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;
   (d) the Total capital of the banking group is not less than $30 million; and
   (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and
   (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document: "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

   For the purposes of this condition of registration,-

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

   "Total capital ratio", "Tier 1 capital ratio", "Common Equity Tier 1 capital ratio", and "Total capital" must be calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015.

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

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

1A. That-
   (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ('ICAAP')" (BS12) dated December 2007;
   (b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015; and
   (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the banking group complies with all requirements set out in the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015.

1C. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:
   (a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

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

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

   For the purposes of this condition of registration, —

   "buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

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

# CONDITIONS OF REGISTRATION

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

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration,-

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

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

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

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

[1] This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's)

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

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

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

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

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

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

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

   (d) an alternate director,—

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

      (ii) for an independent director must be independent;

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

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

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

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

# CONDITIONS OF REGISTRATION

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.
8. That a person must not be appointed as chairperson of the board of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.
9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the bank;
   (d) the majority of the members of the committee must be independent; and
   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.
10. That a substantial proportion of the bank's business is conducted in and from New Zealand.
11. That the bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the bank that are carried on by a person other than the bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the bank or of a service provider to the bank, the following outcomes:
   (a) that the bank's clearing and settlement obligations due on a day can be met on that day;
   (b) that the bank's financial risk positions on a day can be identified on that day;
   (c) that the bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
   (d) that the bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

   For the purposes of this condition of registration, the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006.
12. That:
   (a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;
   (b) the employment contract of the chief executive officer of the bank or person in an equivalent position (together "CEO") is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decision relating to the employment or termination of employment of the CEO are made by, the board of the bank; and
   (c) all staff employed by the bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and be accountable (directly or indirectly) to the CEO of the bank.
13. That the banking group complies with the following quantitative requirements for liquidity-risk management:
   (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
   (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
   (c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

   For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated July 2014 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.
14. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:
   (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
   (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
   (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
   (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.
15. That no more than 10% of total assets may be beneficially owned by a SPV.

# CONDITIONS OF REGISTRATION

For the purposes of this condition, —

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

"SPV" means a person—

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

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

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

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

16. That—

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

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

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

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

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

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

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

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

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

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

(i) all liabilities are frozen in full; and

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

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

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

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

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

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

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

18. That the bank has an Implementation Plan that—

(a) is up-to-date; and

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

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

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

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

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

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

# CONDITIONS OF REGISTRATION

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

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

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

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

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

21. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential loans arising in the loan-to-valuation measurement period.

22. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential loans with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential loans arising in the loan-to-valuation measurement period.

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

In these conditions of registration,—

"banking group" means ANZ Bank New Zealand Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 21 to 23, —

"loan-to-valuation ratio", "non property-investment residential loans", "property-investment residential loans", "qualifying new mortgage lending amount in respect of property-investment residential loans", "qualifying new mortgage lending amount in respect of non property-investment residential loans" and "residential mortgage loans" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated October 2016:

"loan-to-valuation measurement period" means—

(a) the six calendar month period ending on the last day of December 2016; and

(b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of January 2017.

# DIRECTORATE AND AUDITOR

Any document or communication may be sent to any Director at the Registered Office. The document or communication should be marked for the attention of that Director.

### Directors' interests

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

- At least once in each year, Directors are requested to complete, in terms of section 140(1) of the Companies Act 1993, a disclosure of any interests which they have with the Bank itself. Directors are reminded at this time of their obligation under the Companies Act 1993 to disclose promptly any transaction or proposed transaction with the Bank in which they have an interest.
- Directors are also requested to make a general disclosure of their interest in other entities in terms of section 140(2) of the Companies Act 1993. In addition, they are requested to initiate a review of that disclosure if there are any significant alterations which occur subsequently during the period.

In addition to the written disclosures referred to above, Directors disclose relevant interests which they have before discussion of particular business items.

The Companies Act 1993 allows a Director with an interest in a transaction to participate in discussions and to vote on all matters relating to that particular transaction. However, the Board has adopted a guideline whereby a Director with an interest in a transaction should not be present during any discussions, and should not vote, on any matter pertaining to that particular transaction.

### Transactions with Directors

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

## Board Members as at 15 November 2017

### Independent Non-Executive Director and Chair

**John Frederick Judge**
BCom, FCA
Company Director
Auckland, New Zealand

Mr Judge is a member of the Audit Committee, the Human Resources Committee and the Risk Committee.

***Other directorships:*** Aquatx Holdings Limited, Biotelliga Limited, Biotelliga Holdings Limited, Biotelliga Nominees Limited, Endogen Limited, Janohn Limited, Sebca Limited, John Judge Limited, Cup Limited, Sails Friday Limited, The New Zealand Initiative Limited, Hydraulink Fluid Connectors Limited, Analog Digital Instruments Limited, Hydraulink Australia Pty Limited, ADInstruments Pty Limited, ADInstruments NZ Limited

### Executive Director

**David Duncan Hisco**
BBus, MBA
Chief Executive, ANZ Bank New Zealand Limited
Auckland, New Zealand

***Other directorships:*** ANZ Holdings (New Zealand) Limited

### Non-Executive Directors

**Shayne Cary Elliott**
BCom
Chief Executive Officer, Australia and New Zealand Banking Group Limited
Melbourne, Australia

Mr Elliott is a member of the Human Resources Committee.

***Other directorships:*** ANZ Holdings (New Zealand) Limited, Australia and New Zealand Banking Group Limited and the Financial Markets Foundation for Children

**Michelle Nicole Jablko**
LLB (Hons), B.Ec (Hons)
Chief Financial Officer, Australia and New Zealand Banking Group Limited
Melbourne, Australia

Ms Jablko is an alternate director for Mr Elliott

**Nigel Henry Murray Williams**
BCom
Chief Risk Officer, Australia and New Zealand Banking Group Limited
Melbourne, Australia

***Other directorships:*** Shanghai Rural Commercial Bank Co. Limited

Mr Williams is a member of the Risk Committee and Audit Committee.

# DIRECTORATE AND AUDITOR

## Independent Non-Executive Directors

**Antony John Carter**
BE (Hons), ME, FNZIM
Company Director
Auckland, New Zealand

Mr Carter is the Chair of the Risk Committee and a member of the Audit Committee and the Human Resources Committee.

***Other directorships:*** Air New Zealand Limited, Avonhead Mall Limited, Blues Management Limited, Fletcher Building Limited, Fisher & Paykel Healthcare Corporation Limited, Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited, Fletcher Building Industries Limited, Loughborough Investments Limited, Modern Merchants Limited, Strategic Interchange Limited, Tetrad Corporation Limited

**The Rt Hon. Sir John Phillip Key, GNZM, AC**
BCom
Company Director
Auckland, New Zealand

Sir John is a member of the Risk Committee, Audit Committee and the Human Resources Committee.

***Other directorships:*** Air New Zealand Limited, Thirty Eight JK Limited

**Mark John Verbiest**
LLB, CFInstD
Company Director
Wanaka, New Zealand

Mr Verbiest is the Chair of the Audit Committee and a member of the Human Resources Committee and the Risk Committee.

***Other directorships:*** Bear Fund NZ Limited, Freightways Limited, Willis Bond Capital Partners Limited, Willis Bond General Partner Limited, MyCare Limited, The Treasury, Meridian Energy Limited

**Joan Withers**
MBA, AFInstD
Company Director
Auckland, New Zealand

Mrs Withers is the Chair of the Human Resources Committee and a member of the Risk Committee and the Audit Committee.

***Other directorships:*** Mercury NZ Limited, The Warehouse Group Limited, On Being Bold Limited, The Warehouse Planit Trustees Limited, The Warehouse Management Trustee Company Limited, The Warehouse Management Trustee Company No.2 Limited

## Auditor

**KPMG**

Chartered Accountants
10 Customhouse Quay
P O Box 996
Wellington, New Zealand

# DIRECTORS' STATEMENT

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

- The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014
- The Disclosure Statement is not false or misleading.

Over the year ended 30 September 2017, after due enquiry, each Director believes that:

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

**This Disclosure Statement is dated, and has been signed by all Directors of the Bank on, 15 November 2017.**

**Antony Carter**

**Shayne Elliott**

**David Hisco**

**John Judge**

**The Rt Hon. Sir John Key, GNZM, AC**

**Mark Verbiest**

**Nigel Williams**

**Joan Withers**

# Independent Auditor's Report

To the shareholder of ANZ Bank New Zealand Limited

**Report on the Banking Group Disclosure Statement**

## Opinion

In our opinion, the accompanying consolidated financial statements (excluding supplementary information) of ANZ Bank New Zealand Limited (the company) and its subsidiaries (the Banking Group) on pages 3 to 67:

- give a true and fair view of the Banking Group's financial position as at 30 September 2017 and its financial performance and cash flows for the year ended on that date
- comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards.

In our opinion, the supplementary information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order) and is included within the Balance Sheet and notes 14, 18, 28 and 33 of the Disclosure Statement:

- has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration
- is in accordance with the books and records of the Banking Group in all material respects
- fairly states the matters to which it relates in accordance with those Schedules

We have audited the accompanying consolidated financial statements and supplementary information which comprise:

- the consolidated balance sheet as at 30 September 2017
- the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended
- notes, including a summary of significant accounting policies and other explanatory information
- the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order.

## Basis for Opinion

We conducted our Audit in accordance with International Standards on Auditing (New Zealand) (ISA's (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISA (NZ) are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements and supplementary information section of our report.

Our firm has also provided other services to the Banking Group in relation to review of regulatory returns, internal controls reports, prospectus assurance or reviews and agreed upon procedures engagements. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

### The key audit matter

**Provisions for Credit Impairment**

The provision for credit impairment is a Key Audit Matter as the Banking Group has significant credit risk exposure to a large number of counterparties across a wide range of lending and industries. The value of loans and advances on the balance sheet is significant and there is a high degree of complexity and judgement involved for the Banking Group in estimating individual and collective credit impairment provisions against these loans. These features resulted in significant audit effort to address the risks around loan recoverability and the determination of related provisions.

### How the matter was addressed in our audit

Our audit procedures for the individual and collective provision for credit impairment included:

*Provisions against specific individual loans (individual provision)*

— Testing the key controls over counterparty risk grading for wholesale loans (larger customer exposures that are monitored individually). We tested the approval of new lending facilities against the Banking Group's lending policies, the performance of annual loan assessments, and controls over the monitoring of counterparty credit quality. This included testing controls over the identification of exposures showing signs of stress, either due to internal factors specific to the counterparty or external macroeconomic factors, and testing the timeliness of and the accuracy of counterparty risk assessments and risk grading against the requirements of the Banking Group's lending policies

- Performing credit assessments of a sample of wholesale loans managed by the Banking Group's specialist workout and recovery team assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Banking Group as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions). We challenged the Banking Group's risk grading of the loan, their assessment of loan recoverability and the impact on the credit provision. To do this, we used the information on the Banking Group's loan file, discussed the case with the loan officer and management, and performed our own assessment of recoverability. This involved using our understanding of relevant industries and the macroeconomic environment, and comparing assumptions of inputs used by the Banking Group in recoverability assessments to externally sourced evidence, such as commodity prices, publicly available audited financial statements, and comparable external valuations of collateral held
- For retail loans (smaller customer exposures not monitored individually), we evaluated the Banking Group's oversight of the portfolios, with a focus on controls over delinquency statistics monitoring. We tested the level of provisions held against different loan products, on a sample basis, based on the delinquency profile and challenged assumptions made in respect of expected recoveries, primarily from collateral held.

*Provisions estimated across loan portfolios (collective provision)*

- Testing the Banking Group's processes to validate the models used to calculate collective provisions, and evaluating the Banking Group's model methodologies against established market practices and criteria in the accounting standards
- Testing the key controls within IT systems used to calculate the collective provision, specifically those relating to data management and the completeness and accuracy of data transfer from underlying source systems to the collective provision models
- Testing the accuracy of key inputs into models by checking a sample of balances to the general ledger and risk ratings to source systems
- Challenging the key assumptions in the models such as emergence periods, probability of default and loss given default for a sample of retail and wholesale portfolios. We compared modelled estimates against actual losses incurred by the Banking Group
- Re-performing, for a sample of retail and wholesale portfolios and using a KPMG-constructed calculation tool, the calculation of collective provisions to determine the accuracy of model output.

We also challenged key assumptions in the components of the Banking Group's collective provision balance held above modelled provision estimates. This included:

- Evaluating inputs to the concentration risk and economic cycle provisions by comparing underlying portfolio characteristics to loss experience, current market conditions and specific risks inherent in the Banking Group's loan portfolios
- Assessing the requirement for other additional provisions by considering model or data deficiencies identified by the Banking Group's model validation processes
- Assessing the completeness of additional provisions by checking the consistency of risks identified in the portfolios to their inclusion in the Banking Group's assessment.

## The key audit matter

### Valuation of Financial Instruments

Financial instruments held at fair value on the Banking Group's balance sheet include available-for-sale-assets, trading securities, derivative assets and liabilities, investments backing insurance contract liabilities, certain debt securities, and other assets and liabilities designated as measured at fair value through profit or loss.

The instruments are mainly risk management products sold to customers or used by the Banking Group to manage its own interest rate and foreign exchange risk.

The valuation of financial instruments is considered a Key Audit Matter due to:

- Financial instruments held at fair value are significant (16% of assets and 10% of liabilities)
- The significant volume and range of products transacted, increases the risk of inconsistencies in transaction management processes that could lead to inaccurate valuation
- Determining the fair value of trading securities and derivatives involves a significant level of judgement by the Banking Group, increasing the risk of error, and adding complexity to our audit. The level of judgement increases where internal models, as opposed to quoted market prices, are used to determine fair value of an instrument
- The valuation of certain derivatives held by the Banking Group is sensitive to inputs including credit risk, funding rates, probabilities of default and loss given default, and industry practice is evolving as to how the impact of both funding and credit risk is incorporated within the valuation of certain derivative instruments. This increased our audit effort in this area and necessitated the involvement of valuation specialists.

## How the matter was addressed in our audit

Our audit procedures for the valuation of financial instruments held at fair value included:

- Testing access rights and change management controls for key valuation systems
- Testing interface controls, notably the completeness and accuracy of data transfers between transaction processing systems, key systems used to generate valuations and any related valuation adjustments, and the Banking Group's market risk management and finance systems to identify inconsistencies in transaction management and valuation processes across products
- Testing the governance and approval controls such as management review and approval of the valuation models and approval of new products against policies and procedures
- Testing the front office management review and approval of the daily financial instrument trading profit and loss reconciliations prepared by the Banking Group's independent product control function
- Testing the management review and approval of model construction and validation, aimed at assessing the validity and robustness of underlying valuation models
- Testing the Banking Group's data validation controls, such as those over key inputs in generating the fair value to market data where fair values were determined by front office teams.

We carried out testing over the valuation of financial instruments with both observable and unobservable inputs. Our specific testing involved valuation specialists and included:

- Re-performing the valuation of 'level 1' and 'level 2' available for sale assets and trading securities, which are primarily government, semi-government and corporate debt securities, by comparing the observable inputs, including quoted prices, to independently sourced market data

- Using independent models, re-calculating the valuation of a sample of derivative assets and liabilities where the fair value was determined using observable inputs. This included comparing a sample of observable inputs used in the Banking Group's derivative valuations to independently-sourced market data, such as interest rates, foreign exchange rates and volatilities
- Where the fair value of derivatives and other financial assets and liabilities were determined using unobservable inputs ('level 3' instruments), challenging the Banking Group's valuation model by testing the key inputs used to comparable data in the market, including the use of proxy instruments and available alternatives
- Evaluating the appropriateness of the Banking Group's valuation methodology for derivative financial instruments, having regard to current and emerging derivative valuation practices across a range of peer institutions and against the required criteria in the accounting standards. We tested adjustments made to valuations, particularly funding and credit valuation adjustments on un-collateralised derivatives. In particular, for a sample of individual counterparties, we tested key inputs to the credit valuation adjustment calculation, including the probability of default, against observable market data. Where proxies were used, we assessed the proxy against available alternatives across a number of locations.

## The key audit matter

**IT systems and controls**

As a major New Zealand bank, the Banking Group's businesses utilise a large number of complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of a financial report which provides a true and fair view of the Banking Group's financial position and performance. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Banking Group's IT controls. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

## How the matter was addressed in our audit

We tested the control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems. Our audit procedures included:

- Testing the governance controls used by the Banking Group's technology teams and third party suppliers to monitor system integrity, by checking matters impacting the operational integrity of core systems for escalation and action in accordance with the Banking Group's policies
- Testing the access rights given to staff by checking them to approved records, and inspecting the reports over the granting and removal of access rights. We also looked for evidence of escalation of breaches
- Testing preventative controls designed to enforce segregation of duties between users within particular systems
- Testing the operating effectiveness of automated controls, principally relating to the automated calculation of financial transactions. We tested the inputs used within automated calculations to source data and also tested the accuracy of the calculation logic for a sample of transactions within each identified control
- Testing the operating effectiveness of automated reconciliation controls, both between systems and intra-system. For a sample of identified breaks, in reconciliations, we checked that these were recorded on exception reports, and subsequently investigated and cleared by the Banking Group.

## Other Supplementary Information

The Directors, on behalf of the Banking Group, are responsible for the other information included in the Banking Group's Disclosure Statement. Other information includes the information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Report on other legal and regulatory requirements

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

— we have obtained all the information and explanations we have required

— in our opinion, proper accounting records have been kept by the Banking Group, as far as appears from our examination of those records.

## Responsibilities of Directors for the consolidated financial statements and supplementary information

The Directors, on behalf of the Banking Group, are responsible for:

— the preparation and fair presentation of the consolidated financial statements in accordance with Clause 24 of the Order, NZ IFRS and International Financial Reporting Standards

— the preparation and fair presentation of supplementary information, in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order

— implementing necessary internal controls to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the consolidated financial statements and supplementary information

Our objective is:

— to obtain reasonable assurance about whether the Disclosure Statement, including the consolidated financial statements prepared in accordance with Clause 24 of the Order, and supplementary information, in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error

— to issue an Auditor's Report that includes our opinion.

KPMG

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this consolidated financial statements.

A further description of our responsibilities for the Audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our Auditor's Report.

## Review conclusion on the supplementary information relating to Capital Adequacy

Based on our review, nothing has come to our attention that causes us to believe that the information relating to Capital Adequacy, disclosed in note 26 to the Disclosure Statement, is not, in all material respects:

- prepared in accordance with the Banking Group's conditions of registration
- disclosed in accordance with Schedule 11 of the Order.

We have reviewed the information relating to Capital Adequacy, as disclosed in note 26 of the Disclosure Statement for the year ended 30 September 2017. The information relating to Capital Adequacy comprises the information that is required to be disclosed in accordance with Schedule 11 of the Order.

## Basis for conclusion on the supplementary information relating to Capital Adequacy

A review of the supplementary information relating to Capital Adequacy in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410) is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our responsibilities under that standard are further described in the Auditor's Responsibilities for the Review of the supplementary information relating to capital adequacy section of our report.

As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

## Responsibilities of Directors for the supplementary information relating to capital adequacy

The Directors are responsible for the preparation of information relating to Capital Adequacy that is required to be disclosed under Schedule 11 of the Order and prepared in accordance with the Capital Adequacy Framework (Internal Models Based Approach) (BS2B) and described in note 26 to the Disclosure Statement.

## Auditor's Responsibilities for the Review of the supplementary information relating to capital adequacy

Our responsibility is to express a conclusion on the Capital Adequacy information based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410) issued by the XRB. As the auditor of ANZ Bank New Zealand Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and plan and perform the review to obtain limited assurance about whether the capital adequacy information is, in all material respects:

- prepared in accordance with the Banking Group's conditions of registration
- disclosed in accordance with Schedule 11 of the Order.

A review of the Capital Adequacy information in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the information relating to Capital Adequacy disclosures.

## Use of this Auditor's Report

This report is made solely to the shareholder as a body. Our work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our work, this report, or any of the opinions or conclusions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG

KPMG
Wellington

15 November 2017

anz.co.nz

# ANZ BANK NEW ZEALAND LIMITED
# ANNUAL REPORT AND REGISTERED BANK DISCLOSURE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2016
NUMBER 83 | ISSUED NOVEMBER 2016

# ANNUAL REPORT AND REGISTERED BANK DISCLOSURE STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2016

## CONTENTS

# ANNUAL REPORT
## FOR THE YEAR ENDED 30 SEPTEMBER 2016

Pursuant to section 211(3) of the Companies Act 1993, the shareholder of the Bank has agreed that the Annual Report of the Banking Group need not comply with any of the paragraphs (a), and (e) to (j) of subsection (1) and subsection (2) of section 211.

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year ended 30 September 2016 and the audit report on those financial statements.

For and on behalf of the Board of Directors:

John Judge
Chairman
18 November 2016

David Hisco
Executive Director
18 November 2016

# GLOSSARY OF TERMS

In this Registered Bank Disclosure Statement (Disclosure Statement) unless the context otherwise requires:

**Bank** means ANZ Bank New Zealand Limited.

**Banking Group** means the Bank and all its controlled entities.

**Immediate Parent Company** means ANZ Holdings (New Zealand) Limited.

**Ultimate Parent Bank** means Australia and New Zealand Banking Group Limited.

**Overseas Banking Group** means the worldwide operations of Australia and New Zealand Banking Group Limited including its controlled entities.

**New Zealand business** means all business, operations, or undertakings conducted in or from New Zealand identified and treated as if it were conducted by a company formed and registered in New Zealand.

**NZ Branch** means the New Zealand business of the Ultimate Parent Bank.

**ANZ New Zealand** means the New Zealand business of the Overseas Banking Group.

**Registered Office** is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, New Zealand, which is also the Banking Group's address for service.

**RBNZ** means the Reserve Bank of New Zealand.

**APRA** means the Australian Prudential Regulation Authority.

**the Order** means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

Any term or expression which is defined in, or in the manner prescribed by, the Order shall have the meaning given in or prescribed by the Order.

# INCOME STATEMENT

| | Note | Year to 30/09/2016 NZ$m | Year to 30/09/2015 NZ$m |
|---|---|---|---|
| Interest income | 3 | 6,423 | 6,926 |
| Interest expense | 3 | 3,421 | 4,051 |
| Net interest income | | 3,002 | 2,875 |
| Net trading gains | 4 | 12 | 262 |
| Net funds management and insurance income | 4 | 414 | 385 |
| Other operating income | 4 | 421 | 523 |
| Share of associates' profit | | 5 | 5 |
| Operating income | | 3,854 | 4,050 |
| Operating expenses | 5 | 1,599 | 1,512 |
| Profit before credit impairment and income tax | | 2,255 | 2,538 |
| Credit impairment charge | 14 | 150 | 74 |
| **Profit before income tax** | | 2,105 | 2,464 |
| Income tax expense | 6 | 570 | 681 |
| **Profit after income tax** | | 1,535 | 1,783 |

# STATEMENT OF COMPREHENSIVE INCOME

| | Year to 30/09/2016 NZ$m | Year to 30/09/2015 NZ$m |
|---|---|---|
| **Profit after income tax** | 1,535 | 1,783 |
| *Items that will not be reclassified to profit or loss* | | |
| Actuarial gain / (loss) on defined benefit schemes | 18 | (32) |
| Income tax credit / (expense) relating to items not reclassified | (5) | 9 |
| Total items that will not be reclassified to profit or loss | 13 | (23) |
| *Items that may be reclassified subsequently to profit or loss* | | |
| Unrealised gains recognised directly in equity | 91 | 12 |
| Realised losses / (gains) transferred to the income statement | 9 | (16) |
| Income tax credit / (expense) relating to items that may be reclassified | (28) | 1 |
| Total items that may be reclassified subsequently to profit or loss | 72 | (3) |
| **Total comprehensive income for the year** | 1,620 | 1,757 |

# BALANCE SHEET

| | Note | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|---|
| **Assets** | | | |
| Cash | 9 | 2,274 | 2,380 |
| Settlement balances receivable | | 396 | 309 |
| Collateral paid | | 2,310 | 1,929 |
| Trading securities | 10 | 11,979 | 12,139 |
| Investments backing insurance contract liabilities | | 119 | 151 |
| Derivative financial instruments | 11 | 21,110 | 17,658 |
| Available-for-sale assets | 12 | 2,859 | 1,428 |
| Net loans and advances | 13 | 114,623 | 106,357 |
| Other assets | 24 | 701 | 740 |
| Life insurance contract assets | | 630 | 552 |
| Investments in associates | | 7 | 4 |
| Premises and equipment | | 387 | 388 |
| Goodwill and other intangible assets | 25 | 3,424 | 3,492 |
| **Total assets** | | 160,819 | 147,527 |
| Interest earning and discount bearing assets | | 134,489 | 124,785 |
| **Liabilities** | | | |
| Settlement balances payable | | 1,771 | 1,844 |
| Collateral received | | 529 | 1,687 |
| Deposits and other borrowings | 15 | 99,066 | 90,678 |
| Derivative financial instruments | 11 | 21,956 | 17,230 |
| Current tax liabilities | | 21 | 87 |
| Deferred tax liabilities | 6 | 145 | 124 |
| Payables and other liabilities | 26 | 1,119 | 1,487 |
| Provisions | 27 | 206 | 191 |
| Debt issuances | 16 | 20,014 | 19,403 |
| Subordinated debt | 17 | 3,282 | 2,343 |
| **Total liabilities** | | 148,109 | 135,074 |
| **Net assets** | | 12,710 | 12,453 |
| **Equity** | | | |
| Share capital | 28 | 8,888 | 8,888 |
| Reserves | | 62 | (10) |
| Retained earnings | | 3,760 | 3,575 |
| **Total equity** | | 12,710 | 12,453 |
| Interest and discount bearing liabilities | | 115,961 | 108,629 |

For and on behalf of the Board of Directors:

John Judge
Chairman
18 November 2016

David Hisco
Executive Director
18 November 2016

# CASH FLOW STATEMENT

| | Note | Year to 30/09/2016 NZ$m | Year to 30/09/2015 NZ$m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 6,443 | 6,857 |
| Dividends received | | 2 | 89 |
| Net funds management and insurance income | | 332 | 303 |
| Fees and other income received | | 642 | 662 |
| Interest paid | | (3,416) | (3,985) |
| Operating expenses paid | | (1,495) | (1,387) |
| Income taxes paid | | (648) | (587) |
| Cash flows from operating profits before changes in operating assets and liabilities | | 1,860 | 1,952 |
| Net changes in operating assets and liabilities: | | | |
| Change in settlements receivable | | (19) | 4 |
| Change in collateral paid | | (381) | (1,146) |
| Change in trading securities | | 164 | (208) |
| Change in derivative financial instruments | | (2,028) | 2,837 |
| Change in available-for-sale assets | | (1,381) | (634) |
| Change in insurance investment assets | | 32 | 39 |
| Change in loans and advances | | (9,435) | (12,198) |
| Proceeds from sale of loans and advances to NZ Branch | | 697 | 1,891 |
| Change in settlements payable | | (67) | 519 |
| Change in collateral received | | (1,158) | 887 |
| Change in deposits and other borrowings | | 9,142 | 6,511 |
| Net changes in operating assets and liabilities | | (4,434) | (1,498) |
| **Net cash flows provided by / (used in) operating activities** | 8 | (2,574) | 454 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of premises and equipment | | 17 | - |
| Proceeds from sale of insurance policies | | 23 | - |
| Purchase of intangible assets | | (29) | (73) |
| Purchase of premises and equipment | | (71) | (59) |
| **Net cash flows used in investing activities** | | (60) | (132) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of debt issuances | | 7,380 | 4,212 |
| Proceeds from issue of subordinated debt | | 938 | 1,497 |
| Proceeds from issue of ordinary shares | | - | 675 |
| Redemptions of debt issuances | | (4,477) | (4,008) |
| Redemptions of subordinated debt | | - | (297) |
| Dividends paid | | (1,363) | (1,760) |
| **Net cash flows provided by financing activities** | | 2,478 | 319 |
| Net increase / (decrease) in cash and cash equivalents | | (156) | 641 |
| Cash and cash equivalents at beginning of the year | | 2,471 | 1,830 |
| **Cash and cash equivalents at end of the year** | 8 | 2,315 | 2,471 |

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

# STATEMENT OF CHANGES IN EQUITY

| | Note | Share capital NZ$m | Available-for-sale revaluation reserve NZ$m | Cash flow hedging reserve NZ$m | Retained earnings NZ$m | Total equity NZ$m |
|---|---|---|---|---|---|---|
| **As at 1 October 2014** | | 8,213 | - | (7) | 3,575 | 11,781 |
| Profit after income tax | | - | - | - | 1,783 | 1,783 |
| Unrealised gains recognised directly in equity | | - | - | 12 | - | 12 |
| Realised gains transferred to the income statement | | - | - | (16) | - | (16) |
| Actuarial loss on defined benefit schemes | | - | - | - | (32) | (32) |
| Income tax credit on items recognised directly in equity | | - | - | 1 | 9 | 10 |
| Total comprehensive income for the year | | - | - | (3) | 1,760 | 1,757 |
| Ordinary shares issued | 28 | 675 | - | - | - | 675 |
| Ordinary dividend paid | 28 | - | - | - | (1,745) | (1,745) |
| Preference dividend paid | 28 | - | - | - | (15) | (15) |
| **As at 30 September 2015** | | 8,888 | - | (10) | 3,575 | 12,453 |
| Profit after income tax | | - | - | - | 1,535 | 1,535 |
| Unrealised gains / (losses) recognised directly in equity | | - | (2) | 93 | - | 91 |
| Realised losses transferred to the income statement | | - | 2 | 7 | - | 9 |
| Actuarial gain on defined benefit schemes | | - | - | - | 18 | 18 |
| Income tax expense on items recognised directly in equity | | - | - | (28) | (5) | (33) |
| Total comprehensive income for the year | | - | - | 72 | 1,548 | 1,620 |
| Ordinary dividend paid | 28 | - | - | - | (1,350) | (1,350) |
| Preference dividend paid | 28 | - | - | - | (13) | (13) |
| **As at 30 September 2016** | | 8,888 | - | 62 | 3,760 | 12,710 |

# NOTES TO THE FINANCIAL STATEMENTS

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

#### (i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Order. The Banking Group's financial statements are for the Bank's consolidated group, which includes its subsidiaries and associates.

These financial statements comply with:

- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 2013
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable profit-oriented entities
- International Financial Reporting Standards (IFRS).

The principal accounting policies adopted in the preparation of these financial statements are set out below.

#### (ii) Use of estimates and assumptions

The preparation of these financial statements requires the use of management judgements, estimates and assumptions that affect reported amounts and the application of policies.

Discussion of the critical accounting estimates, which include complex or subjective decisions or assessments, are covered in note 2. Such estimates are reviewed on an ongoing basis.

#### (iii) Basis of measurement

The financial information has been prepared in accordance with the historical cost basis except that the following assets and liabilities are stated at their fair value:

- derivative financial instruments
- available-for sale financial assets
- financial instruments held for trading
- financial instruments designated at fair value through profit and loss.

#### (iv) Rounding

The amounts in the financial statements have been rounded to the nearest million dollars, except where otherwise stated.

#### (v) Principles of consolidation

**Subsidiaries**

The consolidated financial statements of the Banking Group comprise the financial statements of the Bank and all its subsidiaries. An entity, including a structured entity, is considered a subsidiary of the Banking Group when it is determined that control over the entity exists. Control is deemed to exist when the Banking Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Power is assessed by examining existing rights that give the Banking Group the current ability to direct the relevant activities of the entity.

At times, the determination of control can be judgemental. Further detail on the judgements involved in assessing control has been provided in note 2.

The effect of all transactions between entities in the Banking Group is eliminated.

**Associates**

The Banking Group applies the equity method of accounting for associates.

#### (vi) Foreign currency translation

**Functional and presentation currency**

Items included in the financial statements of each of the Banking Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The Banking Group's financial statements are presented in New Zealand dollars, which is the Banking Group's functional and presentation currency.

**Foreign currency transactions**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they were initially recognised or included in a previous financial report, are recognised in the income statement in the period in which they arise.

### (b) Income recognition

#### (i) Interest income

Interest income is recognised as it accrues using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability so as to achieve a constant yield on the financial asset or liability.

For assets subject to prepayment, expected life is determined on the basis of the historical behaviour of the particular asset portfolio, taking into account contractual obligations and prepayment experience. This is assessed on a regular basis.

#### (ii) Fee and commission income

Fees and commissions received that are integral to the effective interest rate of a financial asset are recognised using the effective interest method. For example, loan commitment fees, together with related direct costs, are deferred and recognised as an adjustment to the effective interest rate on a loan once drawn.

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

Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are

# NOTES TO THE FINANCIAL STATEMENTS

recognised as income over the period the service is provided.

## (c) Expense recognition

### (i) Interest expense

Interest expense on financial liabilities measured at amortised cost is recognised in the income statement as it accrues using the effective interest method.

### (ii) Loan origination expenses

Certain loan origination expenses are an integral part of the effective interest rate of a financial asset measured at amortised cost. These loan origination expenses include:

- fees and commissions payable to brokers and certain customer incentive payments in respect of originating lending business
- other expenses of originating lending business, such as external legal costs and valuation fees, provided these are direct and incremental costs related to the issue of a financial asset.

Such loan origination expenses are initially recognised as part of the cost of acquiring the financial asset and amortised as part of the effective yield of the financial asset over its expected life using the effective interest method.

## (d) Income tax

### (i) Income tax expense

Income tax on earnings for the year comprises current and deferred tax and is based on the applicable tax law. It is recognised in the income statement as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity.

### (ii) Current tax

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

### (iii) Deferred tax

Deferred tax is accounted for using the comprehensive tax balance sheet method. It is generated by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

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

Deferred tax liabilities are recognised for all taxable temporary differences, other than those relating to taxable temporary differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Banking Group, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

### (iv) Offsetting

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

## (e) Assets

### Financial assets

### (i) Financial assets and liabilities at fair value through profit or loss

Purchases and sales of trading securities are recognised on trade date.

Trading securities are financial instruments acquired principally for the purpose of selling in the short-term or which are a part of a portfolio which is managed for short-term profit-taking. Trading securities are initially recognised and subsequently measured in the balance sheet at their fair value.

Derivatives that are not effective accounting hedging instruments are carried at fair value through profit or loss.

In addition, certain financial assets and liabilities are designated and measured at fair value through profit or loss where any of the following applies:

- the asset represents investments backing insurance policy liabilities
- where doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities, or recognising the gains or losses thereon, on different bases
- a group of financial assets or financial liabilities or both is managed and its performance evaluated on a fair value basis
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Changes in the fair value (gains or losses) of these financial instruments are recognised in the income statement in the period in which they occur.

### (ii) Derivative financial instruments

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

Derivative financial instruments are entered into for trading purposes (including customer-related reasons) or for hedging purposes (where the derivative instruments are used to hedge the Banking Group's exposures to interest rate risk, currency risk, price risk, credit risk and other exposures relating to non-trading positions).

Derivative financial instruments are recognised initially at fair value with gains or losses from subsequent measurement at

# NOTES TO THE FINANCIAL STATEMENTS

fair value being recognised in the income statement. Valuation adjustments are integral in determining the fair value of derivatives. This includes a credit valuation adjustment (CVA) to reflect the credit worthiness of the counterparty and funding valuation adjustment (FVA) to account for the funding cost inherent in the portfolio.

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

**Fair value hedge**

Where the Banking Group hedges the fair value of a recognised asset or liability or firm commitment, changes in the fair value of the derivative designated as a fair value hedge are recognised in the income statement. Changes in the fair value of the hedged item attributable to the hedged risk are reflected in adjustments to the carrying value of the hedged item, which are also recognised in the income statement.

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

If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

**Cash flow hedge**

The Banking Group designates derivatives as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, a foreign exchange component of a firm commitment, or a highly probable forecast transaction. For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedges is recognised initially in other comprehensive income and then recycled to the income statement in the periods when the hedged item will affect profit or loss. Any ineffective portion is recognised immediately in the income statement. When the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting, the cumulative amount deferred in equity remains in the hedging reserve, and is subsequently transferred to the income statement when the hedged item is recognised in the income statement.

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

**Derivatives that do not qualify for hedge accounting**

All gains and losses from changes in the fair value of derivatives that are not designated in a hedging relationship but are entered into to manage the interest rate and foreign exchange risk of the Banking Group are recognised in the income statement. Under certain circumstances, the component of the fair value change in the derivative which relates to current period realised and accrued interest is included in net interest income. The remainder of the fair value movement is included in other income.

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

Purchases and sales of available-for-sale financial assets are recognised on trade date, being the date on which the Banking Group commits to purchase or sell the asset.

Available-for-sale assets comprise non-derivative financial assets which the Banking Group designates as available-for-sale but which are not deemed to be held principally for trading purposes, and include equity investments and debt securities.

They are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity in the available-for-sale revaluation reserve. When the asset is sold, the cumulative gain or loss relating to the asset is transferred to the income statement.

**(iv) Net loans and advances**

Net loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Banking Group provides money to a debtor with no intention of trading the loans and advances. The loans and advances are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the loan or advance. They are subsequently measured at amortised cost using the effective interest method, unless specifically designated on initial recognition at fair value through profit or loss.

All loans are graded according to the level of credit risk.

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

**Impairment of loans and advances**

Loans and advances are reviewed at least at each reporting date for impairment.

Credit impairment provisions are raised for exposures that are known to be impaired. Exposures are impaired and impairment losses are recorded if, and only if, there is objective evidence of impairment as a result of one or more loss events, that occurred after the initial recognition of the loan and prior to the reporting date, and that loss event, or events, has had an impact on the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated.

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

Exposures that are assessed collectively are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data such as changed economic conditions. The provision also takes account of the impact of inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.

The estimated impairment losses are measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present

# NOTES TO THE FINANCIAL STATEMENTS

value. As this discount unwinds during the period between recognition of impairment and recovery of the cash flow, it is recognised in interest income.

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

The provision for impairment loss (individual and collective) is deducted from loans and advances in the balance sheet and the movement for the reporting period is reflected in the income statement.

When a loan is uncollectible, either partially or in full, it is written off against the related provision for loan impairment. Unsecured facilities are normally written-off when they become 180 days past due or earlier in the event of the customer's bankruptcy or similar legal release from the obligation. However, a certain level of recoveries is expected after the write-off, which is reflected in the amount of the provision for credit losses. In the case of secured facilities, remaining balances are written-off after proceeds from the realisation of collateral have been received, if there is a shortfall.

Impairment losses recognised in previous periods are reversed in the income statement if the estimate of the loss subsequently decreases.

A provision is also raised for off-balance sheet items such as commitments that are considered to be onerous.

**(v) Lease receivables**

Contracts to lease assets and hire purchase agreements are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party. All other lease contracts are classified as operating leases.

**(vi) Repurchase agreements**

Securities sold under repurchase agreements are retained in the financial statements where substantially all the risks and rewards of ownership remain with the Banking Group, and a counterparty liability is disclosed under deposits and other borrowings. The difference between the sale price and the repurchase price is accrued over the life of the repurchase agreement and charged to interest expense in the income statement.

Securities purchased under agreements to resell, where the Banking Group does not acquire the risks and rewards of ownership, are recorded as cash or net loans and advances if original maturity is greater than 90 days. The security is not included in the balance sheet. Interest income is accrued on the underlying loan amount.

Securities borrowed are not recognised in the balance sheet, unless these are sold to third parties, at which point the obligation to repurchase is recorded as a financial liability at fair value with fair value movements included in the income statement.

**(vii) Derecognition**

The Banking Group enters into transactions where it transfers financial assets recognised on its balance sheet yet retains either all or a portion of the risks and rewards of the transferred assets. If all, or substantially all, the risks and rewards are retained, the transferred assets are not derecognised from the balance sheet.

In transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Banking Group derecognises the asset if control over the asset is lost. In transfers where control over the asset is retained, the Banking Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. The rights and obligations retained or created in the transfer are recognised separately as assets and liabilities as appropriate.

**Non-financial assets**

**(viii) Goodwill**

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets of a controlled entity at the date of gaining control. Goodwill is recognised as an asset and not amortised, but is assessed for impairment at least annually or more frequently if there is an indication that the goodwill may be impaired. This involves using the discounted cash flows methodology to determine the expected future benefits of the cash-generating units to which the goodwill relates. Where the assessment results in the goodwill balance exceeding the value of expected future benefits, the difference is charged to the income statement. Any impairment of goodwill is not subsequently reversed.

**(f) Liabilities**

**Financial liabilities**

**(i) Deposits and other borrowings**

Deposits and other borrowings include certificates of deposit, interest bearing deposits, UDC secured investments, commercial paper and other related interest and non-interest bearing financial instruments. Deposits and other borrowings, excluding commercial paper, are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost. The interest expense is recognised using the effective interest method. Commercial paper is designated at fair value through profit or loss, with fair value movements recorded directly in the income statement, which reflects the basis on which it is managed.

**(ii) Debt issuances and subordinated debt**

Debt issuances and subordinated debt are accounted for in the same way as deposits and other borrowings.

**(iii) Financial guarantee contracts**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Financial guarantees are issued in the ordinary course of business, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given (typically this is the premium received). Subsequent to initial recognition, the Banking Group's liabilities under such guarantees are measured at the higher of their amortised amount and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These

# NOTES TO THE FINANCIAL STATEMENTS

estimates are determined based on experience of similar transactions and history of past losses.

#### (iv) Derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

### (g) Equity

#### (i) Shares

Issued shares are recognised at the amount paid per share net of directly attributable issue costs.

#### (ii) Reserves

**Available-for-sale revaluation reserve**

This reserve includes changes in the fair value of available-for-sale financial assets, net of tax. These changes are transferred to the income statement (in other operating income) when the asset is derecognised or impaired.

**Cash flow hedging reserve**

This reserve includes the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the hedged transaction impacts the income statement.

### (h) Presentation

#### (i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in either of the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument
- where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses.

#### (ii) Offsetting of financial assets and liabilities

Assets and liabilities are offset and the net amount reported in the balance sheet only where there is:

- a current enforceable legal right to offset the asset and liability
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### (iii) Segment reporting

Operating segments are distinguishable components of the Banking Group that provide products or services that are subject to risks and rewards that are different to those of other operating segments. The Banking Group operates predominately in the banking industry within New Zealand. The Banking Group has very limited exposure to risk associated with operating in different economic environments or political conditions. On this basis no geographical segment information is provided.

### (i) Other

#### (i) Contingent liabilities

Contingent liabilities are not recognised in the balance sheet but disclosed in note 23 unless it is considered remote that the Banking Group will be liable to settle the possible obligation.

#### (ii) Accounting Standards not early adopted

The following standards were available for early adoption but have not been applied in these financial statements.

**Standards and amendments effective for periods commencing after 1 January 2018**

NZ IFRS 9 *Financial Instruments*
The External Reporting Board (XRB) issued the final version of NZ IFRS 9 *Financial Instruments* in September 2014. When operative, this standard will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IFRS 9 addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks. NZ IFRS 9 is not mandatorily effective for the Banking Group until 1 October 2018. The Banking Group is in the process of assessing the impact of application of NZ IFRS 9 and is not yet able to reasonably estimate the impact on its financial statements.

**Standards and amendments effective for periods commencing after 1 January 2019**

NZ IFRS 16 *Leases*
The XRB issued the final version of NZ IFRS 16 *Leases* in February 2016. NZ IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. NZ IFRS 16 substantially carries forward the lessor accounting requirements in NZ IAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. NZ IFRS 16 is not mandatorily effective for the Banking Group until 1 October 2019. The Banking Group is in the process of assessing the impact of application of NZ IFRS 16 and is not yet able to reasonably estimate the impact on its financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

There are a number of critical accounting treatments which include complex or subjective judgements and estimates that may affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

An explanation of the judgements and estimates made by the Banking Group, in the process of applying its accounting policies, that have the most significant effect on the amounts recognised in the financial statements is set out below.

**Critical accounting estimates and assumptions**

**Credit provisioning**

The accounting policy relating to measuring the impairment of loans and advances requires the Banking Group to assess impairment at least at each reporting date. The credit provisions raised (collective and individual) represent management's best estimate of the losses incurred in the loan portfolio at balance date based on their experienced judgement.

The collective provision is estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model risk. The provision also takes into account the impact of large concentrated losses within the portfolio and the economic cycle.

The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on the reliability of the provision.

Individual and collective provisioning involves the use of assumptions for estimating the amounts and timing of expected future cash flows. The process of estimating the amount and timing of cash flows involves considerable management judgement. These judgements are revised regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 14 for details of credit impairment provisions.

**Critical judgements in applying the Banking Group's accounting policies**

**Financial instruments at fair value**

The Banking Group's financial instruments measured at fair value are stated in note 1(a)(iii). In estimating fair value the Banking Group uses, wherever possible, quoted market prices in an active market for the financial instrument.

In the event that there is no active market for the instrument, fair value is based on present value estimates or other market accepted valuation techniques. The valuation models incorporate the impact of bid/ask spread, counterparty credit spreads and other factors that would influence the fair value determined by a market participant. The selection of appropriate valuation techniques, methodology and inputs requires judgement. These are reviewed and updated as market practice evolves.

**Derivatives and hedging**

The Banking Group buys and sells derivatives as part of its trading operations and to hedge its interest rate risk, currency risk, price risk, credit risk and other exposures relating to non-trading positions.

A hedging instrument is a designated derivative whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item. A hedged item is an asset, liability, firm commitment or highly probable forecast transaction that: (a) exposes the Banking Group to the risk of changes in fair value or future cash flows; and (b) is designated as being hedged.

Judgement is required in selecting and designating hedging relationships and assessing hedge effectiveness. NZ IAS 39 *Financial Instruments: Recognition and Measurement* does not specify a single method for assessing hedge effectiveness prospectively or retrospectively. The Banking Group adopts the hypothetical derivative approach to determine hedge effectiveness in line with current risk management strategies. Hedge ineffectiveness can arise for a number of reasons and whilst a hedge may pass the effectiveness tests above it may not be perfectly effective, leaving some volatility in the income statement.

The majority of outstanding derivative positions are transacted over-the-counter and therefore need to be valued using valuation techniques. Included in the determination of the fair value of derivatives is a credit valuation adjustment (CVA) to reflect the creditworthiness of the counterparty. This is influenced by the mark-to-market of the derivative trades and by the movement in the market cost of credit. Further adjustments are made to account for the funding costs inherent in the derivative. Judgment is required to determine the appropriate cost of funding and the future expected cashflows used in this funding valuation adjustment (FVA).

**Structured entities**

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities and are often thinly capitalised with a reliance on debt financing for support.

The Banking Group assesses, at inception and periodically, whether a structured entity should be consolidated based on the accounting policy outlined in note 1. Such assessments are predominantly securitisation activities and involvement with managed funds. When assessing whether the Banking Group controls (and therefore consolidates) a structured entity, judgement is required about whether the Banking Group has power over the relevant activities as well as exposure to variable returns of the structured entity. All involvement, rights and exposure to returns are considered when assessing if control exists.

The Banking Group is deemed to have power over a managed fund when it performs the function of Manager of that managed fund. Whether the Banking Group controls the managed fund depends on whether it holds that power as

# NOTES TO THE FINANCIAL STATEMENTS

principal, or as an agent for other investors. The Banking Group is considered the principal, and thus controls the managed fund, when it cannot be easily removed from the position of Manager by other investors and has variable returns through significant aggregate economic interest in that managed fund. In all other cases the Banking Group is considered to be acting in an agency capacity and does not control the managed fund.

Structured entities are consolidated when control exists. In other cases the Banking Group may simply have an interest in or may sponsor a structured entity but not consolidate it.

The Banking Group considers itself the sponsor of an unconsolidated structured entity where it is the primary party involved in the design and establishment of that structured entity and where any of the following apply:

- where the Banking Group is the major user of that structured entity
- the Banking Group's name appears in the name of that structured entity or on its products
- the Banking Group provides implicit or explicit guarantees of that entity's performance.

**Goodwill**

Refer to note 25 for details of goodwill held by the Banking Group.

The carrying value of goodwill is subject to an impairment test to ensure that the current carrying value does not exceed its recoverable value at the balance sheet date. Any excess of carrying value over recoverable amount is taken to the income statement as an impairment write down.

Goodwill has been allocated for impairment purposes to the cash generating units at which the goodwill is monitored for internal reporting purposes. Impairment testing of purchased goodwill is performed by comparing the recoverable value of each cash generating unit with the current carrying amount of its net assets, including goodwill. Judgement is required in identifying the cash-generating units to which goodwill and other assets are allocated for the purpose of impairment testing.

The recoverable amount is based on value-in-use calculations. These calculations use cash flow projections based on a number of financial budgets within each segment approved by management covering a three year period. Cash flow projections are based on a range of readily available economic assumptions including GDP and CPI. Cash flows beyond the three year period are extrapolated using a 2% growth rate.

These cash flow projections are discounted using a capital asset pricing model. As at 30 June 2016 when the last valuation was prepared, a discount rate of 10.9% was applied to each cash generating unit. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each segment.

Management believes any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the Banking Group's carrying amount to exceed its recoverable amount.

# NOTES TO THE FINANCIAL STATEMENTS

## 3. NET INTEREST INCOME

| | Year to 30/09/2016 NZ$m | Year to 30/09/2015 NZ$m |
|---|---|---|
| **Interest income** | | |
| *Financial assets at fair value through profit or loss* | | |
| Trading securities | 453 | 488 |
| *Financial assets not at fair value through profit or loss* | | |
| Cash | 63 | 94 |
| Available-for-sale assets | 64 | 37 |
| Net loans and advances | 5,814 | 6,277 |
| Other | 29 | 30 |
| | 5,970 | 6,438 |
| Total interest income | 6,423 | 6,926 |
| **Interest expense** | | |
| *Financial liabilities at fair value through profit or loss* | | |
| Commercial paper | 226 | 280 |
| *Financial liabilities not at fair value through profit or loss* | | |
| Deposits and other borrowings | 2,310 | 2,772 |
| Debt issuances | 681 | 855 |
| Subordinated debt | 170 | 112 |
| Other | 34 | 32 |
| | 3,195 | 3,771 |
| Total interest expense | 3,421 | 4,051 |
| Net Interest Income | 3,002 | 2,875 |

## 4. NON INTEREST INCOME

| | Year to 30/09/2016 NZ$m | Year to 30/09/2015 NZ$m |
|---|---|---|
| **Net trading gains** | | |
| Net gain on foreign exchange trading | 203 | 201 |
| Net gain on trading securities | 115 | 384 |
| Net loss on trading derivatives | (306) | (323) |
| Net trading gains | 12 | 262 |
| **Net funds management and insurance income** | | |
| Net funds management income | 187 | 165 |
| Net insurance income | 227 | 220 |
| Total funds management and insurance income | 414 | 385 |
| **Other operating income** | | |
| Lending and credit facility fee income | 55 | 54 |
| Other fee income | 675 | 614 |
| Total fee income | 730 | 668 |
| Direct fee expense | (308) | (264) |
| Net fee income | 422 | 404 |
| Net loss on financial liabilities designated at fair value | (5) | (1) |
| Net ineffectiveness on qualifying fair value hedges | 1 | (8) |
| Net gain / (loss) on derivatives not qualifying for hedge accounting | (29) | 57 |
| Net cash flow hedge gain / (loss) transferred to income statement | (7) | 16 |
| Net loss on available for sale securities transferred to income statement | (2) | - |
| Gain / (loss) on sale of mortgages to NZ Branch | 1 | 1 |
| Other income | 40 | 54 |
| Total other operating income | 421 | 523 |

# NOTES TO THE FINANCIAL STATEMENTS

## 5. OPERATING EXPENSES

| | Year to 30/09/2016 NZ$m | Year to 30/09/2015 NZ$m |
|---|---|---|
| **Personnel** | | |
| Salaries and related costs | 811 | 803 |
| Superannuation costs | 30 | 31 |
| Share-based payments expense | 21 | 22 |
| Other | 32 | 20 |
| Total personnel expenses | 894 | 876 |
| **Premises** | | |
| Depreciation of premises and equipment | 32 | 31 |
| Leasing and rental costs | 79 | 80 |
| Other | 41 | 42 |
| Total premises expenses | 152 | 153 |
| **Technology** | | |
| Depreciation and amortisation | 111 | 49 |
| Licenses and outsourced services | 116 | 99 |
| Other | 58 | 51 |
| Total technology expenses | 285 | 199 |
| **Other** | | |
| Advertising and public relations | 42 | 61 |
| Amortisation of other intangible assets | 5 | 5 |
| Freight, stationery, postage and telephone | 48 | 51 |
| Professional Fees | 45 | 37 |
| Travel and entertainment expenses | 28 | 38 |
| Charges from Ultimate Parent Bank | 64 | 64 |
| Other | 36 | 28 |
| Total other expenses | 268 | 284 |
| Total operating expenses | 1,599 | 1,512 |

### Software capitalisation changes

During the year ended 30 September 2016, the Banking Group changed the application of its accounting policy for the capitalisation of expenditure on internally generated software assets effective from 1 October 2015. The change aligns the accounting policy for software assets with the rapidly changing technology landscape and the Banking Group's evolving digital strategy by increasing the threshold for capitalisation of software development costs and directly expensing more project related costs. The change does not affect the Banking Group's total investment in technology but does affect the timing of recognition of costs in the income statement. The impact of the change on the results for the year ended 30 September 2016 was:

- Higher amortisation of NZ$54 million relating to the accelerated amortisation of software assets where the original cost was below the revised threshold at 1 October 2015. This brings forward amortisation which otherwise would have been recognised in future periods.
- Higher operating expenses of NZ$56 million relating to software development costs which otherwise would have been capitalised and amortised in future periods.

The change in capitalised software treatment has no impact on regulatory capital ratios.

# NOTES TO THE FINANCIAL STATEMENTS

## 6. INCOME TAX

| | Year to 30/09/2016 NZ$m | Year to 30/09/2015 NZ$m |
|---|---|---|
| **Reconciliation of the prima facie income tax payable on profit** | | |
| Profit before income tax | 2,105 | 2,464 |
| Prima facie income tax at 28% | 589 | 690 |
| Imputed and non-assessable dividends | (1) | (3) |
| Change in tax provisions | (5) | - |
| Non assessable income and non deductible expenditure | (11) | (6) |
| Income tax over provided in prior years | (2) | - |
| Total income tax expense | 570 | 681 |
| Effective tax rate (%) | 27.1% | 27.6% |
| | | |
| **Amounts recognised in the income statement** | | |
| Current tax | 582 | 607 |
| Deferred tax | (12) | 74 |
| Total income tax expense recognised in the income statement | 570 | 681 |
| | | |
| Imputation credits available | 3,566 | 2,989 |

The imputation credit balance for the Banking Group includes the imputation credit balance in relation to both the New Zealand Resident imputation group and other companies in the the Banking Group that are not in the New Zealand Resident imputation group. The imputation credit balance available includes imputation credits that will arise from the payment of the amount of provision for income tax as at the reporting date.

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| **Deferred tax assets / (liabilities) comprise the following temporary differences:** | | |
| Provision for credit impairment | 174 | 171 |
| Premises and equipment, software and intangibles | 22 | (8) |
| Provisions and accruals | 75 | 60 |
| Insurance policy assets | (159) | (146) |
| Financial instruments | (24) | 4 |
| Lease finance | (216) | (203) |
| Other deferred tax assets and liabilities (including tax provisions) | (17) | (2) |
| Net deferred tax liabilities[1] | (145) | (124) |

[1] Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same income tax authority on either the same taxable entity or different taxable entities within the same taxable group.

# NOTES TO THE FINANCIAL STATEMENTS

## 7. SEGMENT ANALYSIS

The Banking Group is organised into three major business segments for segment reporting purposes - Retail, Commercial and Institutional. Centralised back office and corporate functions support these segments. These segments are consistent with internal reporting provided to the chief operating decision maker, being the Bank's Chief Executive Officer.

During the year ended 30 September 2016, Wealth was integrated with Retail, having been disclosed separately previously. Segment reporting has been updated to reflect this change and other minor changes to the Banking Group's structure. Comparative data has been adjusted to be consistent with the current year's segment definitions.

**Retail**

Retail provides products and services to Retail, Private Banking, and Business Banking customers via the branch network, mortgage specialists, relationship managers, the contact centre and a variety of self service channels (internet banking, phone banking, ATMs, website and mobile phone banking). Retail and Private Banking customers have personal banking requirements and Business Banking customers consist primarily of small enterprises with annual revenues of less than NZ$5 million. Core products and services include current and savings accounts, unsecured lending (credit cards, personal loans and overdrafts), home loans secured by mortgages over property, investment products, superannuation and insurance services.

**Commercial**

Commercial provides services to Commercial & Agri (CommAgri) and UDC customers. CommAgri customers consist of primarily privately owned medium to large enterprises. Commercial's relationship with these businesses ranges from simple banking requirements with revenue from deposit and transactional facilities, and cash flow lending, to more complex funding arrangements with revenue sourced from a wider range of products. UDC is principally involved in the financing and leasing of plant, vehicles and equipment, mainly for small and medium sized businesses, as well as investment products.

**Institutional**

Institutional provides financial services through a number of specialised units to large multi-banked corporations, often global, which require sophisticated product and risk management solutions. Those financial services include loan structuring, foreign exchange, wholesale money market services and transaction banking.

**Other**

Other includes treasury and back office support functions, none of which constitutes a separately reportable segment.

# NOTES TO THE FINANCIAL STATEMENTS

## Business segment analysis[1]

| 30/09/2016 | Retail NZ$m | Commercial NZ$m | Institutional NZ$m | Other NZ$m | Total NZ$m |
|---|---|---|---|---|---|
| External interest income | 3,456 | 2,202 | 756 | 9 | 6,423 |
| External interest expense | (1,598) | (333) | (407) | (1,083) | (3,421) |
| Net intersegment interest | (198) | (981) | 19 | 1,160 | - |
| Net interest income | 1,660 | 888 | 368 | 86 | 3,002 |
| Other external operating income | 677 | 16 | 113 | 41 | 847 |
| Share of associates' profit | 5 | - | - | - | 5 |
| Operating income | 2,342 | 904 | 481 | 127 | 3,854 |
| Operating expenses | 1,045 | 258 | 181 | 115 | 1,599 |
| Profit before credit impairment and income tax | 1,297 | 646 | 300 | 12 | 2,255 |
| Credit impairment charge | 58 | 72 | 20 | - | 150 |
| Profit before income tax | 1,239 | 574 | 280 | 12 | 2,105 |
| Income tax expense | 336 | 161 | 79 | (6) | 570 |
| Profit after income tax | 903 | 413 | 201 | 18 | 1,535 |
| ***Other information*** | | | | | |
| Depreciation and amortisation | 12 | 1 | - | 135 | 148 |
| Goodwill | 1,109 | 1,052 | 1,072 | - | 3,233 |
| Other intangible assets | 118 | 3 | - | 70 | 191 |
| Investment in associates | 7 | - | - | - | 7 |
| Total external assets | 69,024 | 41,639 | 47,995 | 2,161 | 160,819 |
| Total external liabilities | 63,604 | 13,362 | 40,880 | 30,263 | 148,109 |
| | | | | | |
| **30/09/2015** | | | | | |
| External interest income | 3,474 | 2,441 | 1,002 | 9 | 6,926 |
| External interest expense | (1,905) | (388) | (498) | (1,260) | (4,051) |
| Net intersegment interest | (1) | (1,149) | (200) | 1,350 | - |
| Net interest income | 1,568 | 904 | 304 | 99 | 2,875 |
| Other external operating income | 657 | 17 | 360 | 136 | 1,170 |
| Share of associates' profit | 3 | - | - | 2 | 5 |
| Operating income | 2,228 | 921 | 664 | 237 | 4,050 |
| Operating expenses | 1,023 | 257 | 189 | 43 | 1,512 |
| Profit before credit impairment and income tax | 1,205 | 664 | 475 | 194 | 2,538 |
| Credit impairment charge | 56 | - | 18 | - | 74 |
| Profit before income tax | 1,149 | 664 | 457 | 194 | 2,464 |
| Income tax expense | 314 | 186 | 126 | 55 | 681 |
| Profit after income tax | 835 | 478 | 331 | 139 | 1,783 |
| ***Other information*** | | | | | |
| Depreciation and amortisation | 20 | - | - | 65 | 85 |
| Goodwill | 1,109 | 1,052 | 1,072 | - | 3,233 |
| Other intangible assets | 138 | - | - | 121 | 259 |
| Investment in associates | 4 | - | - | - | 4 |
| Total external assets | 61,366 | 40,561 | 43,903 | 1,697 | 147,527 |
| Total external liabilities | 59,933 | 12,390 | 38,963 | 23,788 | 135,074 |

1 Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.

# NOTES TO THE FINANCIAL STATEMENTS

## 8. NOTES TO THE CASH FLOW STATEMENT

| | Year to 30/09/2016 NZ$m | Year to 30/09/2015 NZ$m |
|---|---|---|
| **Reconciliation of profit after income tax to net cash flows provided by / (used in) operating activities** | | |
| Profit after income tax | 1,535 | 1,783 |
| **Non-cash items:** | | |
| Depreciation and amortisation | 148 | 85 |
| Provision for credit impairment | 150 | 74 |
| Deferred fee revenue and expenses | (7) | (3) |
| Amortisation of capitalised brokerage / mortgage origination fees | 152 | 123 |
| Amortisation of premiums and discounts | 70 | 60 |
| Fair value gains and losses | 31 | (263) |
| Loss on disposal and impairment of premises and equipment and intangibles | 4 | 1 |
| **Deferrals or accruals of past or future operating cash receipts or payments:** | | |
| Change in net operating assets less liabilities | (4,434) | (1,498) |
| Change in interest receivable | 29 | - |
| Change in interest payable | (43) | (9) |
| Change in accrued expenses | (71) | 13 |
| Change in provisions | 15 | (13) |
| Change in life insurance policy assets | (57) | (79) |
| Change in other receivables and payables | 8 | 2 |
| Change in net income tax assets / liabilities | (78) | 94 |
| Dividends from associates in excess of share of profits | (3) | 84 |
| **Items classified as investing activities:** | | |
| Proceeds from sale of insurance policies | (23) | - |
| Net cash flows provided by / (used in) operating activities | (2,574) | 454 |

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| **Reconciliation of cash and cash equivalents to the balance sheet** | | |
| Cash | 2,274 | 2,380 |
| Amounts included in settlement balances receivable / (payable): | | |
| Nostro accounts | 45 | 108 |
| Overdrawn nostro accounts | (4) | (17) |
| Total cash and cash equivalents | 2,315 | 2,471 |

# NOTES TO THE FINANCIAL STATEMENTS

## 9. CASH

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| Coins, notes and cash at bank | 193 | 195 |
| Securities purchased under agreements to resell | 229 | 338 |
| Balances with central banks | 1,852 | 1,847 |
| Total cash | 2,274 | 2,380 |

## 10. TRADING SECURITIES

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| Government securities | 5,953 | 6,555 |
| Corporate and financial institution securities | 6,026 | 5,584 |
| Total trading securities | 11,979 | 12,139 |

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

The use of derivatives and their sale to customers as risk management products is an integral part of the Banking Group's trading activities. Derivatives are also used to manage the Banking Group's own exposure to fluctuations in exchange and interest rates as part of its own asset and liability management activities.

Derivatives are subject to the same types of credit and market risk as other financial instruments and the Banking Group manages these risks in a consistent manner.

Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading.

**Derivatives held for trading**

The held for trading classification includes two categories of derivative instruments: those held as trading positions and those used for the Banking Group's balance sheet risk management.

*Trading positions*

Trading positions consist of both sales to customers and market making activities. Sales to customers include the structuring and marketing of derivative products to customers which enable them to take or mitigate risks. Market making activities consist of derivatives entered into principally for the purpose of generating profits from short-term fluctuations in price or margins. Positions may be traded actively or held over a period of time to benefit from expected changes in market rates.

*Balance sheet risk management*

The Banking Group designates certain balance sheet risk management derivatives into hedging relationships in order to minimise income statement volatility. This volatility is created by differences in the timing of recognition of gains and losses between the derivative and the hedged item. Hedge accounting is not applied to all balance sheet risk management positions as some balance sheet risk management derivatives are classified as held for trading.

# NOTES TO THE FINANCIAL STATEMENTS

| | 30/09/2016 | | | 30/09/2015 | | |
|---|---|---|---|---|---|---|
| | Notional principal amount | Fair values | | Notional principal amount | Fair values | |
| | | Assets | Liabilities | | Assets | Liabilities |
| | NZ$m | NZ$m | NZ$m | NZ$m | NZ$m | NZ$m |
| **Derivatives held for trading** | | | | | | |
| **Foreign exchange derivatives** | | | | | | |
| Spot and forward contracts | 63,895 | 650 | 785 | 76,319 | 1,625 | 1,339 |
| Swap agreements | 141,306 | 1,718 | 3,157 | 123,744 | 2,886 | 3,559 |
| Options purchased | 2,379 | 50 | 2 | 1,870 | 79 | 3 |
| Options sold | 2,248 | 7 | 77 | 1,820 | 2 | 46 |
| | 209,828 | 2,425 | 4,021 | 203,753 | 4,592 | 4,947 |
| **Interest rate derivatives** | | | | | | |
| Forward rate agreements | 41,507 | 1 | 5 | 24,743 | 2 | 12 |
| Swap agreements | 1,178,795 | 17,910 | 17,084 | 1,140,894 | 12,421 | 11,479 |
| Futures contracts | 78,988 | 3 | 46 | 45,407 | 12 | 19 |
| Options purchased | 2,366 | 6 | - | 1,218 | 5 | - |
| Options sold | 1,603 | 1 | 2 | 827 | 1 | 2 |
| | 1,303,259 | 17,921 | 17,137 | 1,213,089 | 12,441 | 11,512 |
| Commodity derivatives | 460 | 33 | 32 | 235 | 29 | 29 |
| Total derivatives held for trading | 1,513,547 | 20,379 | 21,190 | 1,417,077 | 17,062 | 16,488 |
| **Derivatives in hedging relationships** | | | | | | |
| **Fair value hedges** | | | | | | |
| Interest rate swap agreements | 34,639 | 238 | 386 | 30,230 | 230 | 375 |
| | 34,639 | 238 | 386 | 30,230 | 230 | 375 |
| **Cash flow hedges** | | | | | | |
| Interest rate swap agreements | 18,985 | 493 | 380 | 21,715 | 366 | 367 |
| Total derivatives in hedging relationships | 53,624 | 731 | 766 | 51,945 | 596 | 742 |
| Total derivative financial instruments | 1,567,171 | 21,110 | 21,956 | 1,469,022 | 17,658 | 17,230 |

## Derivatives in hedging relationships

*Fair value hedges*

The Banking Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates.

| **Gain / (loss) on fair value hedges attributable to the hedged risk** | 30/09/2016 | 30/09/2015 |
|---|---|---|
| | NZ$m | NZ$m |
| Gain / (loss) arising from fair value hedges: | | |
| - hedged item | (45) | 143 |
| - hedging instrument | 46 | (151) |
| Net ineffectiveness on qualifying fair value hedges | 1 | (8) |

*Cash flow hedges*

The Banking Group's cash flow hedges comprise interest rate swaps that are used to protect against exposures to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their forecast repricing profile. This forms the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges.

| **Analysis of the cash flow hedging reserve** | 30/09/2016 | 30/09/2015 |
|---|---|---|
| | NZ$m | NZ$m |
| Deferred gain / (loss) attributable to hedges of: | | |
| Variable rate loan assets | 296 | 187 |
| Short term re-issuances of fixed rate customer and wholesale deposit liabilities | (234) | (197) |
| Total cash flow hedging reserve | 62 | (10) |

All underlying hedged cash flows are expected to be recognised in the income statement in the period in which they occur, which is anticipated to take place over the next ten years (2015: ten years).

# NOTES TO THE FINANCIAL STATEMENTS

## 12. AVAILABLE-FOR-SALE ASSETS

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| Government securities | 1,195 | 869 |
| Corporate and financial institution securities | 1,663 | 557 |
| Equity and other securities | 1 | 2 |
| Total available-for-sale assets | 2,859 | 1,428 |

## 13. NET LOANS AND ADVANCES

| | Note | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|---|
| Overdrafts[1] | | 1,133 | 1,162 |
| Credit card outstandings | | 1,663 | 1,688 |
| Term loans - housing[1] | | 67,298 | 59,904 |
| Term loans - non-housing | | 43,651 | 42,880 |
| Lease receivables | | 226 | 236 |
| Hire purchase | | 1,098 | 946 |
| Total gross loans and advances | | 115,069 | 106,816 |
| Less: Provision for credit impairment | 14 | (622) | (611) |
| Less: Unearned income | | (211) | (214) |
| Add: Capitalised brokerage/mortgage origination fees | | 360 | 314 |
| Add: Customer liability for acceptances | | 27 | 52 |
| Total net loans and advances | | 114,623 | 106,357 |

[1] Comparative amounts have been changed to reclassify revolving credit facilities secured by residential property provided to corporate customers from Overdrafts to Term loans – housing (2015: NZ$476 million).

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ$6,020 million as at 30 September 2016 (2015: NZ$8,011 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

# NOTES TO THE FINANCIAL STATEMENTS

## 14. PROVISION FOR CREDIT IMPAIRMENT

### Credit impairment charge / (release)

| | 30/09/2016 | | | | 30/09/2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Retail mortgages NZ$m | Other retail exposures NZ$m | Non-retail exposures NZ$m | Total NZ$m | Retail mortgages NZ$m | Other retail exposures NZ$m | Non-retail exposures NZ$m | Total NZ$m |
| New and increased provisions | 16 | 110 | 111 | 237 | 31 | 107 | 76 | 214 |
| Write-backs | (28) | (18) | (30) | (76) | (39) | (19) | (59) | (117) |
| Recoveries of amounts written off previously | - | (22) | (3) | (25) | (1) | (20) | (8) | (29) |
| Individual credit impairment charge / (release) | (12) | 70 | 78 | 136 | (9) | 68 | 9 | 68 |
| Collective credit impairment charge / (release) | 1 | 3 | 10 | 14 | (1) | 9 | (2) | 6 |
| Credit impairment charge / (release) | (11) | 73 | 88 | 150 | (10) | 77 | 7 | 74 |

### Movement in provision for credit impairment

| | 30/09/2016 | | | | 30/09/2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Retail mortgages NZ$m | Other retail exposures NZ$m | Non-retail exposures NZ$m | Total NZ$m | Retail mortgages NZ$m | Other retail exposures NZ$m | Non-retail exposures NZ$m | Total NZ$m |
| **Collective provision** | | | | | | | | |
| Balance at beginning of the year | 77 | 127 | 253 | 457 | 78 | 118 | 255 | 451 |
| Charge / (release) to income statement | 1 | 3 | 10 | 14 | (1) | 9 | (2) | 6 |
| Balance at end of the year | 78 | 130 | 263 | 471 | 77 | 127 | 253 | 457 |
| **Individual provision** | | | | | | | | |
| Balance at beginning of the year | 54 | 9 | 91 | 154 | 72 | 15 | 128 | 215 |
| New and increased provisions net of write-backs | (12) | 92 | 81 | 161 | (8) | 88 | 17 | 97 |
| Bad debts written off | (2) | (95) | (55) | (152) | (4) | (94) | (54) | (152) |
| Discount unwind reversal / (discount unwind)[1] | (3) | - | (9) | (12) | (6) | - | - | (6) |
| Balance at end of the year | 37 | 6 | 108 | 151 | 54 | 9 | 91 | 154 |
| Total provision for credit impairment | 115 | 136 | 371 | 622 | 131 | 136 | 344 | 611 |

[1] The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

### Impaired assets

| | 30/09/2016 | | | | 30/09/2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Retail mortgages NZ$m | Other retail exposures NZ$m | Non-retail exposures NZ$m | Total NZ$m | Retail mortgages NZ$m | Other retail exposures NZ$m | Non-retail exposures NZ$m | Total NZ$m |
| Balance at beginning of the year | 97 | 32 | 253 | 382 | 189 | 35 | 410 | 634 |
| Transfers from productive | 64 | 129 | 395 | 588 | 89 | 126 | 155 | 370 |
| Transfers to productive | (31) | (8) | (7) | (46) | (69) | (7) | (46) | (122) |
| Assets realised or loans repaid | (71) | (31) | (244) | (346) | (108) | (28) | (212) | (348) |
| Write offs | (2) | (95) | (55) | (152) | (4) | (94) | (54) | (152) |
| Total impaired assets | 57 | 27 | 342 | 426 | 97 | 32 | 253 | 382 |
| Other assets under administration | 9 | 2 | - | 11 | 6 | 1 | - | 7 |
| Undrawn facilities with impaired customers | - | 1 | 57 | 58 | 1 | - | 14 | 15 |

# NOTES TO THE FINANCIAL STATEMENTS

## 15. DEPOSITS AND OTHER BORROWINGS

| | Note | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|---|
| Term deposits | | 39,665 | 34,982 |
| On demand and short term deposits | | 42,323 | 41,436 |
| Deposits not bearing interest | | 7,780 | 6,716 |
| UDC secured investments | 21 | 1,592 | 1,736 |
| Total customer deposits | | 91,360 | 84,870 |
| Certificates of deposit | | 2,237 | 745 |
| Commercial paper | | 5,364 | 4,964 |
| Securities sold under repurchase agreements | | 76 | 47 |
| Deposits from other members of ANZ New Zealand | 32 | 29 | 52 |
| Total deposits and other borrowings | | 99,066 | 90,678 |

Deposits from customers, except UDC secured investments, are unsecured and rank equally with other unsecured liabilities of the Banking Group. In the unlikely event that the Bank was put into liquidation or ceased to trade, secured creditors and those creditors set out in Schedule 7 of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

## 16. DEBT ISSUANCES

| | Note | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|---|
| Domestic bonds | | 3,975 | 3,525 |
| U.S. medium term notes[1] | | 6,883 | 6,831 |
| Euro medium term notes[1] | | 2,792 | 3,598 |
| Covered bonds[1] | 21, 31 | 6,218 | 5,335 |
| Index linked notes | | - | 35 |
| Total debt issuances | | 19,868 | 19,324 |
| Fair value hedge adjustment | | 192 | 175 |
| Less debt issuances held by the Bank | | (46) | (96) |
| Total debt issuances | | 20,014 | 19,403 |

[1] These debt issuances are issued by ANZ New Zealand (Int'l) Limited and are guaranteed by the Bank.

Debt issuances, other than covered bonds, are unsecured and rank equally with other unsecured liabilities of the Banking Group.

Domestic bonds includes two series of bonds quoted on the NZX Debt Market which mature on 2 September 2021 and 1 September 2023 respectively (the Bonds). NZX Regulation has granted the Bank a waiver in respect of the Bonds from the requirement in Main Board/Debt Market Listing Rule 5.2.3 (as modified by NZX's ruling on Rule 5.2.3 issued on 29 September 2015) to enable the Bank to apply for quotation of the Bonds on the NZX Debt Market even though the Bonds may not initially be held by at least 100 members of the public holding at least 25% of the Bonds issued. The waiver has been granted for a period of 6 months from the relevant dates of quotation of the Bonds on the NZX Debt Market. The effect of the waiver from NZX Listing Rule 5.2.3 is that initially the Bonds may not be widely held and there may be reduced liquidity in the Bonds. To the extent that there is a material reduction in the spread of the Bonds, the Bank will notify NZX accordingly.

# NOTES TO THE FINANCIAL STATEMENTS

## 17. SUBORDINATED DEBT

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| **ANZ Capital Notes**[1] | | |
| NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN)[2] | 496 | 494 |
| NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN) | 1,003 | 1,003 |
| NZD 938m ANZ New Zealand Internal Capital Notes 2 (ANZ NZ ICN2) | 938 | - |
| **Perpetual subordinated debt** | | |
| NZD 835m perpetual subordinated bond[2,3] | 835 | 835 |
| AUD 10m perpetual subordinated floating rate loan | 10 | 11 |
| Total subordinated debt | 3,282 | 2,343 |

1 These instruments qualify as additional tier 1 capital.
2 These instruments are quoted on the NZX Debt Market.
3 These instruments qualify as tier 2 capital under RBNZ's Basel III transitional rules, subject to the RBNZ's Basel III transition adjustment. Refer to note 29 for further details.

Subordinated debt is subordinated in right of payment in the event of liquidation or wind up to the claims of depositors and all creditors of the relevant issuer or drawer of the debt.

### ANZ Capital Notes

- On 5 March 2015, the Bank issued 10.03 million convertible notes (ANZ NZ ICN) to the NZ Branch at NZ$100 each, raising NZ$1,003 million.
- On 31 March 2015, the Bank issued 500 million convertible notes (ANZ NZ CN) at NZ$1 each, raising NZ$500 million before issue costs.
- On 15 June 2016, the Bank issued 9.38 million convertible notes (ANZ NZ ICN2) to the NZ Branch at NZ$100 each, raising NZ$938 million.

ANZ Capital Notes (the notes) are fully paid convertible non-cumulative perpetual subordinated notes.

As at 30 September 2016, ANZ NZ CN carried a BBB- credit rating from Standard and Poor's.

The notes are classified as debt given there are circumstances beyond the Bank's control where the principal is converted into a variable number of shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) or the Ultimate Parent Bank (ANZ NZ CN).

*Interest*

Interest on the notes is non-cumulative and payable as follows:

- ANZ NZ ICN: payable semi-annually in arrears in March and September in each year. The interest rate is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 380 basis point margin.
- ANZ NZ CN: payable quarterly in arrears in February, May, August and November in each year. The interest rate is fixed at 7.2% per annum until 25 May 2020, and thereafter will be based on a floating rate equal to the aggregate of the New Zealand 3 month bank bill rate plus a 350 basis point margin.
- ANZ NZ ICN2: payable semi-annually in arrears in June and December in each year. The interest rate is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 629 basis point margin.

Interest payments are subject to the Bank's absolute discretion and certain payment conditions being satisfied (including RBNZ and APRA (ANZ NZ CN only) requirements). If interest is not paid on the notes the Bank may not, except in limited circumstances, pay dividends or undertake a share buy-back or other capital reduction on its ordinary shares until interest is next paid.

*Conversion features*

On 24 March 2025 (ANZ NZ ICN) or 25 May 2022 (ANZ NZ CN) or an earlier date under certain circumstances, the relevant notes will mandatorily convert into a variable number of ordinary shares of the:

- Bank based on the net assets per share in the Bank's most recently published Disclosure Statement (ANZ NZ ICN) or
- Ultimate Parent Bank based on the average market price of the Ultimate Parent Bank's ordinary shares over a specified period prior to conversion less a 1% discount (ANZ NZ CN).

The mandatory conversion will be deferred for a specified period if the conversion tests are not met.

The Bank will be required to convert some or all of the notes if a common equity capital trigger event, or an RBNZ or APRA (ANZ NZ CN only) non-viability trigger event occurs. The ANZ NZ ICN and ANZ NZ ICN2 will convert into ordinary shares of the Bank and the ANZ NZ CN will convert into ordinary shares of the Ultimate Parent Bank, subject to a maximum conversion number.

A common equity capital trigger event occurs if the:

- Banking Group's common equity tier 1 capital ratio is equal to or less than 5.125% or
- Overseas Banking Group's Level 2 common equity tier 1 capital ratio is equal to or less than 5.125% (ANZ NZ CN only).

An RBNZ non-viability trigger event occurs if the RBNZ directs the Bank to convert or write off the notes or a statutory manager is appointed to the Bank and decides the Bank must convert or write off the notes. An APRA non-viability trigger event occurs if APRA notifies the Ultimate Parent Bank that, without the conversion or write-off of certain securities or a public sector injection of capital (or equivalent support), it considers that the Ultimate Parent Bank would become non-viable.

On 25 May 2020 the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's and APRA's prior approval), or to convert into ordinary shares of the

# NOTES TO THE FINANCIAL STATEMENTS

Ultimate Parent Bank, all or some of the ANZ NZ CN at its discretion on similar terms as mandatory conversion.

On 24 March 2023 the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's prior approval), or to convert into ordinary shares of the Bank, all or some of the ANZ NZ ICN at its discretion on similar terms as mandatory conversion.

On 15 June 2026 and each 5th anniversary thereafter the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's prior approval), all or some of the ANZ NZ ICN2 at its discretion.

*Rights of holders in event of liquidation*

The notes rank equally with each other and with the Bank's preference shares and lower than perpetual subordinated debt. Holders of the notes do not have any right to vote in general meetings of the Bank.

**Perpetual subordinated debt**

Perpetual subordinated debt instruments are classified as debt reflecting an assessment of the key terms and conditions of the instruments, and an assessment of the ability, and likelihood of interest payments being deferred. Certain of these instruments have interrelationships that have been considered in this assessment.

*NZD 835,000,000 bond*

This bond was issued by the Bank on 18 April 2008.

The Bank may elect to redeem the bond on 18 April 2018 (the Call Date) or any interest payment date subsequent to 18 April 2018. Interest is payable semi-annually in arrears on 18 April and 18 October each year, up to and including the Call Date and then quarterly thereafter. Should the bond not be called at the Call Date, the Coupon Rate from the Call Date onwards will be based on a floating rate equal to the aggregate of the 3 month bank bill rate plus a 300 basis point margin.

As at 30 September 2016, this bond carried a BBB+ rating by Standard and Poor's and an A3 rating by Moody's.

The coupon interest on the bond is 5.28% per annum until 18 April 2018.

*AUD 10,000,000 loan*

This loan was drawn down by the Bank on 27 March 2013 and has no fixed maturity. Interest is payable semi-annually in arrears on 15 March and 15 September each year. The Bank may repay the loan on any interest payment date after the NZD 835,000,000 bond has been repaid in full.

Coupon interest is based on a floating rate equal to the aggregate of the Australian 6 month bank bill rate plus a 240 basis point margin, increasing to the Australian 6 month bank bill rate plus a 440 basis point margin from 15 September 2018.

# NOTES TO THE FINANCIAL STATEMENTS

## 18. FINANCIAL RISK MANAGEMENT

### Strategy in using financial instruments

Financial instruments are fundamental to the Banking Group's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Banking Group. Financial instruments create, modify or reduce the credit, market and liquidity risks of the Banking Group's balance sheet. The Banking Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Banking Group.

The risk management and policy control framework applicable to the entities comprising the Banking Group has been set by the Board and Risk Committee of the Bank or the Ultimate Parent Bank, as appropriate. Likewise oversight and monitoring of material risk exposures of the Banking Group is undertaken by the Risk Management functions of the Bank and also the Ultimate Parent Bank. Throughout this document, references to the Risk Management of the operations within the entities comprising the Banking Group, implicitly involves oversight by both related entities.

### Credit risk

Credit risk is the risk of financial loss from counterparties being unable to fulfil their contractual obligations. The Banking Group assumes credit risk in a wide range of lending and other activities in diverse markets and many jurisdictions. Credit risks arise not only from traditional lending to customers, but also from inter-bank, treasury, international trade and capital market activities around the world.

The Banking Group has an overall lending objective of sound growth for appropriate returns. The credit risk objectives of the Banking Group are set by the Board and are implemented and monitored within a tiered structure of delegated authority, designed to oversee multiple facets of credit risk, including business writing strategies, credit policies/controls, single exposures, portfolio monitoring and risk concentrations.

### Credit risk management

A credit risk management framework is in place across the Banking Group with the aim of ensuring a structured and disciplined approach is maintained in achieving the objectives set by the Board. The framework focuses on policies, people, skills, controls, risk concentrations and portfolio balance. It is supported by portfolio analysis and business-writing strategies, which guide lending decisions and identify segments of the portfolio requiring attention. The effectiveness of the framework is monitored through a series of compliance and reporting processes.

An independent Risk Management function is staffed by risk specialists. In regard to credit risk management, the objective is for Risk Management to provide robust credit policies, to make independent credit decisions, and to provide strong support to front line staff in the application of sound credit practices. In addition to providing independent credit assessment on lending decisions, Risk Management also performs key roles in portfolio management by development and validation of credit risk measurement systems, loan asset quality reporting, and development of credit standards and policies.

The credit risk management framework is top down. The framework is defined by the Banking Group's credit principles and policies. The effectiveness of the credit risk management framework is validated through the compliance and monitoring processes.

Risk Management's responsibilities for credit risk policy and management are executed through dedicated departments, which support the business units. All major business unit credit decisions require approval from both business writers and independent risk personnel.

Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent upon the level of risk. Credit risk policy and management is executed through the Chief Risk Officer, who is responsible for various dedicated areas within the Risk Management division. Wholesale Risk services the Banking Group's commercial, investment banking and rural lending activities through dedicated teams. Retail Risk services the Banking Group's small business and consumer customers. The Credit Reporting team within Risk Management provides an independent overview of credit risk across the Bank at a portfolio level. The Banking Group allows sole discretion for transaction approvals at the business unit level in both the retail and wholesale lending sectors, with larger transactions approved by Retail Risk and Wholesale Risk.

Credit risk review function Group Credit Assurance also provides a further independent check mechanism to ensure the quality of credit decisions. This includes providing independent periodic checks on asset quality and compliance with the agreed standards and policies across the Banking Group.

### Country risk management

Some customer credit risks involve country risk, whereby actions or events at a national or international level could disrupt servicing of commitments. Country risk arises when payment or discharge of an obligation will, or could, involve the flow of funds from one country to another or involve transactions in a currency other than the domestic currency of the relevant country.

Country ratings are assigned to each country where the Banking Group incurs country risk and have a direct bearing on the Banking Group's risk appetite for each country. The country rating is determined through a defined methodology based around external ratings agencies' ratings and internal specialist opinion. It is also a key risk consideration in the Banking Group's capital pricing model for cross border flows.

The recording of country limits provides the Banking Group with a means to identify and control country risk. Country limits ensure that there is a country-by-country ceiling on exposures that involve country risk. They are recorded by time to maturity and purpose of exposure, e.g., trade, markets and project finance. Country limits are managed centrally by the Ultimate Parent Bank, through a global country risk exposure management system managed by a specialist unit within Institutional Risk.

### Portfolio stress testing

Stress testing is integral to strengthening the predictive approach to Risk Management and is a key component to managing risk appetite and business writing strategies. It creates greater understanding of impacts on financial

# NOTES TO THE FINANCIAL STATEMENTS

performance through modelling relationships and sensitivities between geographic, industry and business unit exposures under a range of macro economic scenarios.

The Ultimate Parent Bank has a dedicated stress testing team that assists business and risk executives in the Banking Group to model and report periodically to management and the Board Risk Committee on a range of scenarios and stress tests.

**Portfolio analysis and reporting**

Credit portfolios are actively monitored at each layer of the risk structure to ensure credit deterioration is quickly detected and mitigated through the implementation of remediation strategies.

Businesses incurring credit risk undertake regular and comprehensive analysis of their credit portfolios. Issue identification and adherence to performance benchmarks are reported to Risk Management and business executives through a series of reports including monthly 'asset quality' reporting. This process is undertaken by or overseen by Risk Management ensuring an efficient and independent conduit exists to identify and communicate emerging credit issues to Banking Group executives and the Board.

**Collateral management**

Banking Group credit principles specify lending only what the counterparty has the capacity and ability to repay and the Banking Group sets limits on the acceptable level of credit risk. Acceptance of credit risk is firstly based on the counterparty's assessed capacity to meet contractual obligations (ie interest and capital repayments). Obtaining collateral is only used to mitigate credit risk. Procedures are designed to ensure collateral is managed, legally enforceable, conservatively valued and adequately insured where appropriate. Banking Group policy sets out the types of acceptable collateral, including:

- Cash
- Mortgages over property
- Charges over business assets, eg premises, stock and debtors
- Charges over financial instruments, eg debt securities and equities in support of trading facilities
- Financial guarantees.

In the event of customer default, any loan security is usually held as mortgagee in possession while action is taken to realise it. Therefore the Banking Group does not usually hold any real estate or other assets acquired through the enforcement of security.

The Banking Group uses International Swaps and Derivatives Association Master Agreements (ISDA) to document derivatives' activities to limit exposure to credit losses. The credit risk is reduced by a master agreement to the extent that, if an event of default occurs, all contracts with the counterparty are terminated and settled on a net basis. Further, it is the Banking Group's preferred practice to include all products covered by the ISDA in the Credit Support Annex (CSA) in order to achieve further credit exposure reduction. Under a CSA, collateral is passed between the parties, depending on the aggregate mark-to-market (positive or negative) of derivative trades between the two entities, to mitigate the market contingent counterparty risk inherent in the outstanding positions.

**Concentrations of credit risk**

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Banking Group monitors its portfolios to identify and assess risk concentrations. Concentration limits are used to guard against large single customer or correlated credit risks. Risk Management, Business Unit executives and senior management monitor large exposure concentrations through a monthly list of the Banking Group's top corporate exposures. The ANZ Credit and Market Risk Committee and Board Risk Committee regularly review a comprehensive list of single customer concentration limits and customers' adherence to these limits.

Analyses of financial assets by industry sector are based on Australian and New Zealand Standard Industrial Classification (ANZSIC) codes. Notes on the following tables:

1. Government and local authority includes exposures to government administration and defence, education and health and community services.
2. Other includes exposures to electricity, gas and water, communications and personal services.
3. Net loans and advances exclude individual and collective provisions for credit impairment held in respect of credit related commitments.
4. Credit related commitments comprise undrawn facilities, customer contingent liabilities and letters of offer.

# NOTES TO THE FINANCIAL STATEMENTS

| 30/09/2016 | Cash, settlements receivable and collateral paid NZ$m | Trading securities and available-for-sale assets NZ$m | Derivative financial instruments NZ$m | Net loans and advances[3] NZ$m | Other financial assets NZ$m | Credit related commitments[4] NZ$m | Total NZ$m |
|---|---|---|---|---|---|---|---|
| **Industry** | | | | | | | |
| Agriculture | - | - | 24 | 18,510 | 64 | 1,189 | 19,787 |
| Forestry, fishing and mining | - | - | 45 | 776 | 3 | 809 | 1,633 |
| Business and property services | - | - | 79 | 11,292 | 39 | 2,865 | 14,275 |
| Construction | - | - | 17 | 1,492 | 5 | 853 | 2,367 |
| Entertainment, leisure and tourism | - | - | 31 | 1,347 | 5 | 361 | 1,744 |
| Finance and insurance | 2,935 | 7,728 | 18,692 | 941 | 282 | 1,378 | 31,956 |
| Government and local authority[1] | 1,852 | 7,030 | 1,075 | 1,245 | 4 | 1,167 | 12,373 |
| Manufacturing | - | 12 | 185 | 3,465 | 12 | 1,977 | 5,651 |
| Personal lending | - | - | - | 68,893 | 238 | 14,125 | 83,256 |
| Retail trade | - | - | 64 | 1,966 | 7 | 933 | 2,970 |
| Transport and storage | - | 5 | 91 | 1,611 | 6 | 871 | 2,584 |
| Wholesale trade | - | - | 23 | 1,617 | 6 | 1,561 | 3,207 |
| Other[2] | - | 63 | 784 | 1,941 | 7 | 1,668 | 4,463 |
| | 4,787 | 14,838 | 21,110 | 115,096 | 678 | 29,757 | 186,266 |
| Less: Provision for credit impairment | - | - | - | (518) | - | (104) | (622) |
| Less: Unearned income | - | - | - | (211) | - | - | (211) |
| Add: Capitalised brokerage/mortgage origination fees | - | - | - | 360 | - | - | 360 |
| Total financial assets | 4,787 | 14,838 | 21,110 | 114,727 | 678 | 29,653 | 185,793 |
| **Geography** | | | | | | | |
| New Zealand | 2,931 | 9,681 | 3,628 | 112,152 | 669 | 29,470 | 158,531 |
| Overseas | 1,856 | 5,157 | 17,482 | 2,575 | 9 | 183 | 27,262 |
| Total financial assets | 4,787 | 14,838 | 21,110 | 114,727 | 678 | 29,653 | 185,793 |
| **30/09/2015** | | | | | | | |
| **Industry** | | | | | | | |
| Agriculture | - | - | 23 | 18,383 | 73 | 1,238 | 19,717 |
| Forestry, fishing and mining | - | - | 44 | 931 | 4 | 1,035 | 2,014 |
| Business and property services | - | 1 | 23 | 10,816 | 43 | 2,798 | 13,681 |
| Construction | - | - | 12 | 1,342 | 5 | 811 | 2,170 |
| Entertainment, leisure and tourism | - | - | 47 | 1,067 | 4 | 268 | 1,386 |
| Finance and insurance | 2,576 | 6,956 | 15,140 | 1,245 | 335 | 1,317 | 27,569 |
| Government and local authority[1] | 1,847 | 6,475 | 1,338 | 1,156 | 5 | 1,408 | 12,229 |
| Manufacturing | - | 31 | 417 | 3,470 | 14 | 1,993 | 5,925 |
| Personal lending | - | - | - | 61,374 | 245 | 13,798 | 75,417 |
| Retail trade | - | - | 18 | 2,008 | 8 | 1,012 | 3,046 |
| Transport and storage | - | 6 | 60 | 1,638 | 7 | 759 | 2,470 |
| Wholesale trade | - | - | 17 | 1,468 | 6 | 1,248 | 2,739 |
| Other[2] | - | 98 | 519 | 1,970 | 8 | 1,672 | 4,267 |
| | 4,423 | 13,567 | 17,658 | 106,868 | 757 | 29,357 | 172,630 |
| Less: Provision for credit impairment | - | - | - | (514) | - | (97) | (611) |
| Less: Unearned income | - | - | - | (214) | - | - | (214) |
| Add: Capitalised brokerage / mortgage origination fees | - | - | - | 314 | - | - | 314 |
| Total financial assets | 4,423 | 13,567 | 17,658 | 106,454 | 757 | 29,260 | 172,119 |
| **Geography** | | | | | | | |
| New Zealand | 2,527 | 8,673 | 3,671 | 104,178 | 748 | 29,077 | 148,874 |
| Overseas | 1,896 | 4,894 | 13,987 | 2,276 | 9 | 183 | 23,245 |
| Total financial assets | 4,423 | 13,567 | 17,658 | 106,454 | 757 | 29,260 | 172,119 |

1 Government and local authority includes exposures to government administration and defence, education and health and community services.
2 Other includes exposures to electricity, gas and water, communications and personal services.
3 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.
4 Credit related commitments comprise undrawn facilities, customer contingent liabilities and letters of offer. The comparative amount for undrawn facilities has been reduced by $5,518 million following a review of the composition of commitments.

# NOTES TO THE FINANCIAL STATEMENTS

**Maximum exposure to credit risk**

The following table presents the maximum exposure to credit risk for on and off balance sheet financial instruments before taking account of the financial effect of any collateral held or other credit enhancements, unless such collateral meets the offsetting criteria in NZ IAS 32 *Financial Instruments: Presentation*.

The table also provides a quantification of the value of the financial charges the Banking Group holds over a borrower's specific asset (or assets) where the Banking Group is able to enforce the collateral in satisfying a debt in the event of the borrower failing to meet its contractual obligations. For the purposes of this disclosure, where the collateral held is valued at more than the corresponding credit exposure, the financial effect is capped at the value of the credit exposure. In respect of derivative financial instruments, the assessed collateral is the amount of cash collateral received and does not include the effect of any netting arrangements under ISDAs.

The most common types of collateral include:

- Security over real estate including residential, commercial, industrial and rural property
- Cash deposits
- Other security over business assets including specific plant and equipment, inventory and accounts receivables.

The Banking Group also manages its credit risk by accepting other types of collateral such as guarantees and security interests over the assets of a customer's business. The assignable value of such credit mitigants is less certain and their financial effect has not been quantified for disclosure purposes. Credit exposures shown as not fully secured may benefit from such credit mitigants.

| | 30/09/2016 | | | 30/09/2015 | | |
|---|---|---|---|---|---|---|
| | Maximum exposure to credit risk | Financial effect of collateral | Unsecured portion of credit exposure | Maximum exposure to credit risk | Financial effect of collateral | Unsecured portion of credit exposure |
| | NZ$m | NZ$m | NZ$m | NZ$m | NZ$m | NZ$m |
| **On and off-balance sheet positions** | | | | | | |
| Cash | 2,081 | 229 | 1,852 | 2,185 | 338 | 1,847 |
| Settlement balances receivable | 396 | 265 | 131 | 309 | 134 | 175 |
| Collateral paid | 2,310 | - | 2,310 | 1,929 | - | 1,929 |
| Trading securities | 11,979 | - | 11,979 | 12,139 | - | 12,139 |
| Derivative financial instruments | 21,110 | 529 | 20,581 | 17,658 | 1,687 | 15,971 |
| Available-for-sale assets | 2,859 | - | 2,859 | 1,428 | - | 1,428 |
| Net loans and advances | 114,727 | 104,399 | 10,328 | 106,454 | 95,560 | 10,894 |
| Other financial assets | 678 | 361 | 317 | 757 | 382 | 375 |
| Credit related commitments | 29,653 | 15,193 | 14,460 | 29,260 | 14,568 | 14,692 |
| Total exposure to credit risk | 185,793 | 120,976 | 64,817 | 172,119 | 112,669 | 59,450 |

## Credit quality

A core component of the Banking Group's credit risk management capability is the risk grading framework used across all major business units. A set of risk grading principles and policies is supported by a complementary risk grading methodology. Pronouncements by the International Basel Committee on Banking Supervision have been encapsulated in these principles and policies, including governance, validation and modelling requirements.

The Banking Group's risk grade profile changes dynamically through new counterparty lending and existing counterparty movements in either risk or volume. All counterparty risk grades are subject to frequent review, including statistical and behavioural reviews in consumer and small business segments, and individual counterparty reviews in segments with larger single name borrowers.

**Impairment and provisioning of financial assets**

The Banking Group's policy relating to the recognition and measurement of impaired assets conforms to the RBNZ's guidelines.

Loans are classified as either performing or impaired. Impaired assets are credit exposures where: there is doubt as to whether the full contractual amount (including interest) will be received; a material credit obligation is 90 days past due but not well secured; they are portfolio managed and can be held for up to 180 days past due; or concessional terms have been provided due to the financial difficulties of the customer.

An exposure is classified as past due but not impaired (less than 90 days) where the value of collateral is sufficient to repay both the principal debt and all other potential interest or there is no concern as to the creditworthiness of the counterparty in question.

The past due but not impaired (over 90 days) classification applies where contractual payments are past due by 90 days or more, or where the facility remains outside of contractual arrangements for 90 or more consecutive days, but the Banking Group believes that impairment is not appropriate on the basis of the level of security/collateral available, or the facility is portfolio managed.

The provision for credit impairment represents management's best estimate of the losses incurred in the loan portfolio at balance date based on its experienced judgement.

# NOTES TO THE FINANCIAL STATEMENTS

### Distribution of gross loans and advances assets by credit quality

The credit quality of the portfolio of loans and advances is assessed by reference to the Banking Group's risk grading principles and policies supported by a complementary risk grading methodology.

| | 30/09/2016 | | | | 30/09/2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Retail mortgages NZ$m | Other retail exposures NZ$m | Non-retail exposures NZ$m | Total NZ$m | Retail mortgages NZ$m | Other retail exposures NZ$m | Non-retail exposures NZ$m | Total NZ$m |
| Strong risk rating | 57,203 | 1,263 | 20,248 | 78,714 | 49,020 | 1,285 | 23,051 | 73,356 |
| Satisfactory risk rating | 6,335 | 2,997 | 22,309 | 31,641 | 6,754 | 3,021 | 19,192 | 28,967 |
| Substandard but not past due or impaired | 325 | 539 | 1,928 | 2,792 | 575 | 382 | 1,389 | 2,346 |
| Total neither past due nor impaired | 63,863 | 4,799 | 44,485 | 113,147 | 56,349 | 4,688 | 43,632 | 104,669 |
| Past due but not impaired: | | | | | | | | |
| 1 to 5 days | 337 | 125 | 350 | 812 | 297 | 110 | 454 | 861 |
| 6 to 29 days | 131 | 73 | 42 | 246 | 188 | 92 | 99 | 379 |
| 1 to 29 days | 468 | 198 | 392 | 1,058 | 485 | 202 | 553 | 1,240 |
| 30 to 59 days | 109 | 32 | 62 | 203 | 101 | 37 | 88 | 226 |
| 60 to 89 days | 82 | 17 | 6 | 105 | 73 | 18 | 11 | 102 |
| 90 days and over | 81 | 26 | 23 | 130 | 103 | 32 | 62 | 197 |
| Total past due but not impaired | 740 | 273 | 483 | 1,496 | 762 | 289 | 714 | 1,765 |
| Total impaired assets | 57 | 27 | 342 | 426 | 97 | 32 | 253 | 382 |
| Gross loans and advances | 64,660 | 5,099 | 45,310 | 115,069 | 57,208 | 5,009 | 44,599 | 106,816 |

### Credit quality of gross loans and advances neither past due nor impaired

The credit quality of financial assets is assessed by the Banking Group using internal ratings which aim to reflect the relative ability of counterparties to fulfil, on time, their credit-related obligations, and is based on their current probability of default.

### Internal ratings

*Strong risk rating* - Corporate customers demonstrating superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events. Retail customers with low expected loss. This rating band broadly corresponds to ratings "Aaa" to "Ba1" and "AAA" to "BB+" of Moody's Investors Service and Standard & Poor's respectively.

*Satisfactory risk rating* - Corporate customers consistently demonstrating sound operational and financial stability over the medium to long term, even though some may be susceptible to cyclical trends or variability in earnings. Retail customers with moderate expected loss. This rating band broadly corresponds to ratings "Ba2" to "B1" and "BB" to "B+" of Moody's Investors Service and Standard & Poor's respectively.

*Substandard but not past due or impaired* - Corporate customers demonstrating some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. Retail customers with higher expected loss. This rating band broadly corresponds to ratings "B2" to "Caa" and "B" to "CCC" of Moody's Investors Service and Standard & Poor's respectively.

Movements in the rating categories between balance dates are due to both changes in the underlying internal ratings applied to customers and to new loans written or loans rolling off.

### Credit quality of financial assets that are past due but not impaired

Ageing analysis of past due loans is used by the Banking Group to measure and manage credit quality. Financial assets that are past due but not impaired include those:

- Assessed, approved and managed on a portfolio basis within a centralised environment (for example, credit cards and personal loans)
- Held on a productive basis until they are 180 days past due
- Managed on an individual basis.

A large portion of retail credit exposures, such as residential mortgages, are generally well secured. That is, the fair value of associated security is sufficient to ensure that the Banking Group will recover the entire amount owing over the life of the facility and there is reasonable assurance that collection efforts will result in payment of the amounts due in a timely manner.

# NOTES TO THE FINANCIAL STATEMENTS

## Market risk

Market risk is the risk to the Banking Group's earnings arising from changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices. Market risk is generated through both trading activities and the interest rate risk inherent in the banking book.

The Banking Group conducts trading operations in interest rates, foreign exchange, commodities and debt securities.

The Banking Group has a detailed risk management and control framework to support its trading and balance sheet management activities. The framework incorporates a risk measurement approach to quantify the magnitude of market risk within trading and balance sheet portfolios. This approach, and related analysis, identifies the range of possible outcomes that can be expected over a given period of time, establishes the relative likelihood of those outcomes and allocates an appropriate amount of capital to support these activities.

### Market risk management and control responsibilities

The Board Risk Committee has delegated responsibility for the oversight of market risk to the Asset & Liability Committee (ALCO), chaired by the Chief Financial Officer of the Bank. ALCO is required to ensure that market risk exposure across Traded and Non-Traded portfolios remains within the risk appetite specified by the Board Risk Committee. ALCO receives regular reporting on a range of trading and balance sheet market risk exposures.

The Risk Management division of the Banking Group, through the Chief Risk Officer, is responsible for the day-to-day oversight of market risk. This includes the implementation of a comprehensive limit and policy framework to control the amount of risk that the Banking Group will accept. Market risk limits are allocated at various levels and are reported and monitored on a daily basis. The detailed limit framework allocates individual limits to manage and control asset classes (e.g., interest rates, foreign exchange), risk factors (e.g., interest rates, volatilities) and profit and loss limits (to monitor and manage the performance of the trading portfolios).

Additional oversight and monitoring of material risk exposures of the Banking Group is undertaken by the Risk Management functions of the Ultimate Parent Bank.

Within overall strategies and policies, the control of market risk is the joint responsibility of business units and Risk Management, with the delegation of market risk limits from the Board Risk Committee to both Risk Management and the business units.

These risks are monitored daily against a comprehensive limit framework that includes Value at Risk, aggregate market position and sensitivity, product and geographic thresholds. To facilitate the management, control, measurement and reporting of market risk, the Banking Group has grouped market risk into two broad categories:

*a. Traded market risk*

This is the risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. They arise in trading transactions where the Banking Group acts as principal with clients or with the market. The primary risk categories monitored are:

- Currency risk is the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.
- Interest rate risk is the potential loss arising from the change in the value of a financial instrument due to changes in market interest rates or their implied volatilities.
- Credit spread risk is the potential loss arising from a change in value of an instrument due to a movement of its margin or spread relative to a bench mark.

*b. Non-traded market risk (or balance sheet risk)*

This comprises the management of non-traded interest rate risk, liquidity, and the risk to capital and earnings as a result of movements in market rates.

Some instruments do not fall into either category but also expose the Banking Group to market risk. These include equity securities classified as available-for-sale. Regular reviews are performed to substantiate the valuation of these types of instruments.

In all trading areas the Banking Group has implemented models that calculate Value at Risk ("VaR") exposures, monitor risk exposures against defined limits on a daily basis, and "stress test" trading portfolios.

### VaR measure

A key measure of market risk is VaR. VaR is a statistical estimate of the likely daily loss and is based on historical market movements.

The confidence level is such that there is a 99% probability that the loss will not exceed the VaR estimate on any given day. Conversely there is 1% probability of the decrease in market value exceeding the VaR estimate on any given day.

The Banking Group's standard VaR approach for both traded and non-traded risk is historical simulation. The Banking Group calculates VaR using historical changes in market rates and prices over the previous 500 business days. Traded and Non-Traded VaR is calculated using a one-day holding period.

It should be noted that because VaR is driven by actual historical observations, it is not an estimate of the maximum loss that the Banking Group could experience from an extreme market event. As a result of this limitation, the Banking Group utilises a number of other risk measures (e.g. stress testing) and associated detailed control limits to measure and manage market risk.

# NOTES TO THE FINANCIAL STATEMENTS

*Traded market risks*

| | 30/09/2016 | | | | 30/09/2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Value at risk at 99% confidence | | | | Value at risk at 99% confidence | | | |
| | Period end NZ$m | High for year NZ$m | Low for year NZ$m | Average for year NZ$m | Period end NZ$m | High for year NZ$m | Low for year NZ$m | Average for year NZ$m |
| Foreign exchange risk | 0.2 | 0.9 | 0.1 | 0.4 | 0.6 | 1.1 | - | 0.3 |
| Interest rate risk | 2.1 | 4.9 | 1.3 | 2.6 | 2.4 | 5.1 | 1.0 | 2.1 |
| Credit spread risk | 0.5 | 0.7 | 0.3 | 0.5 | 0.7 | 0.7 | 0.2 | 0.4 |
| Diversification benefit | (0.7) | n/a | n/a | (1.0) | (2.0) | n/a | n/a | (0.7) |
| Total VaR | 2.1 | 4.4 | 1.3 | 2.5 | 1.7 | 4.9 | 1.0 | 2.1 |

Traded market risk VaR is calculated separately for foreign exchange and for interest rate/debt markets businesses as well as for the Banking Group. The diversification benefit reflects the historical correlation between foreign exchange, interest rate and debt markets.

To supplement the VaR methodology, the Banking Group applies a wide range of stress tests, both on individual portfolios and at the Banking Group level. The Banking Group's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of the Banking Group.

*Non-traded market risk (or balance sheet risk)*

The principal objectives of balance sheet management are to manage net interest income sensitivity while maintaining acceptable levels of interest rate and liquidity risk and to manage the market value of the Banking Group's capital. Liquidity risk is dealt with in the next section.

**Interest rate risk**

The objective of balance sheet interest rate risk management is to mitigate the negative impact of movements in wholesale interest rates on the earnings of the Banking Group's banking book. Non-traded interest rate risk relates to the potential adverse impact to earnings from changes in market interest rates. This risk arises from two principal sources: mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets.

As part of normal business activity the Banking Group has additional risks from fixed rate mortgage prepayments and basis risk:

- Prepayment risk is the potential risk to earnings or market value from when a customer prepays all or part of a fixed rate loan and where any customer fee charged is not sufficient to offset the loss in value to the Banking Group of this financial asset due to movements in interest rates and other pricing factors. As far as possible the true economic cost is passed through to customers in line with their terms and conditions and relevant legislation.
- Basis risk is the potential risk to earnings or market value from differences between customer pricing and wholesale market pricing. This is managed through active review of product margins.

Non-traded interest rate risk is managed to both value and earnings at risk limits. Interest rate risk is reported using three measures: VaR; scenario analysis (to a 1% shock); and interest rate sensitivity gap. This treatment excludes the effect of prepayment and basis risk.

*a. Non-traded interest rate risk VaR*

| | Period end NZ$m | High for year NZ$m | Low for year NZ$m | Average for year NZ$m |
|---|---|---|---|---|
| **30/09/2016** | | | | |
| Value at risk at 99% confidence | 9.7 | 10.3 | 7.7 | 8.9 |
| **30/09/2015** | | | | |
| Value at risk at 99% confidence | 7.4 | 12.4 | 7.3 | 10.1 |

# NOTES TO THE FINANCIAL STATEMENTS

*b. Scenario analysis – a 1% shock on the next 12 months' net interest income*

A 1% overnight parallel positive shift in the yield curve is modelled to determine the potential impact on net interest income over the succeeding 12 months. This is a standard risk quantification tool.

The figures in the table below indicate the outcome of this risk measure for the current and comparative periods – expressed as a percentage of reported net interest income. The sign indicates the nature of the rate sensitivity with a positive number signifying that a rate increase is positive for net interest income over the next 12 months. Conversely, a negative number signifies that a rate increase is negative for the next 12 months' net interest income.

| | 30/09/2016 | 30/09/2015 |
|---|---|---|
| **Impact of 1% rate shock** | | |
| Period end | 0.4% | 1.7% |
| Maximum exposure | 1.6% | 2.3% |
| Minimum exposure | -0.2% | 0.2% |
| Average exposure (in absolute terms) | 0.7% | 1.1% |

The extent of mismatching between the repricing characteristics and timing of interest bearing assets and liabilities at any point has implications for future net interest income.

### Interest rate sensitivity gap

The interest rate sensitivity gap analysis provides information about the Banking Group's exposure to interest rate risk.

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability funding. These mismatches are managed within policy guidelines for mismatch positions.

The following tables represent the interest rate sensitivity of the Banking Group's assets, liabilities and off balance sheet instruments by showing the periods in which these instruments may reprice (that is, when interest rates applicable to each asset or liability can be changed).

The repricing gaps are based upon contractual repricing.

| 30/09/2016 | Total NZ$m | Up to 3 months NZ$m | Over 3 to 6 months NZ$m | Over 6 to 12 months NZ$m | Over 1 to 2 years NZ$m | Over 2 years NZ$m | Not bearing interest NZ$m |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash | 2,274 | 2,081 | - | - | - | - | 193 |
| Settlement balances receivable | 396 | 48 | - | - | - | - | 348 |
| Collateral paid | 2,310 | 2,310 | - | - | - | - | - |
| Trading securities | 11,979 | 1,092 | 243 | 308 | 2,090 | 8,246 | - |
| Derivative financial instruments | 21,110 | - | - | - | - | - | 21,110 |
| Available-for-sale assets | 2,859 | 1,956 | 149 | 50 | 160 | 543 | 1 |
| Net loans and advances | 114,623 | 61,267 | 8,256 | 18,483 | 18,677 | 8,411 | (471) |
| Other financial assets | 678 | 65 | 25 | 17 | 12 | - | 559 |
| Total financial assets | 156,229 | 68,819 | 8,673 | 18,858 | 20,939 | 17,200 | 21,740 |
| **Liabilities** | | | | | | | |
| Settlement balances payable | 1,771 | 666 | - | - | - | - | 1,105 |
| Collateral received | 529 | 529 | - | - | - | - | - |
| Deposits and other borrowings | 99,066 | 65,416 | 11,986 | 10,120 | 2,460 | 1,302 | 7,782 |
| Derivative financial instruments | 21,956 | - | - | - | - | - | 21,956 |
| Debt issuances | 20,014 | 4,342 | - | 1,087 | 2,843 | 11,742 | - |
| Subordinated debt | 3,282 | 938 | 1,013 | - | 835 | 496 | - |
| Other financial liabilities | 639 | 53 | - | - | 9 | 124 | 453 |
| Total financial liabilities | 147,257 | 71,944 | 12,999 | 11,207 | 6,147 | 13,664 | 31,296 |
| **Hedging instruments** | - | 17,376 | (13,314) | 5,850 | (11,914) | 2,002 | - |
| Interest sensitivity gap | 8,972 | 14,251 | (17,640) | 13,501 | 2,878 | 5,538 | (9,556) |

# NOTES TO THE FINANCIAL STATEMENTS

| 30/09/2015 | Total NZ$m | Up to 3 months NZ$m | Over 3 to 6 months NZ$m | Over 6 to 12 months NZ$m | Over 1 to 2 years NZ$m | Over 2 years NZ$m | Not bearing interest NZ$m |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash | 2,380 | 2,185 | - | - | - | - | 195 |
| Settlement balances receivable | 309 | 141 | - | - | - | - | 168 |
| Collateral paid | 1,929 | 1,929 | - | - | - | - | - |
| Trading securities | 12,139 | 1,280 | 731 | 789 | 863 | 8,476 | - |
| Derivative financial instruments | 17,658 | - | - | - | - | - | 17,658 |
| Available-for-sale assets | 1,428 | 1,178 | - | - | - | 248 | 2 |
| Net loans and advances | 106,357 | 57,459 | 6,373 | 15,238 | 19,900 | 7,844 | (457) |
| Other financial assets | 757 | - | 113 | 33 | - | 5 | 606 |
| Total financial assets | 142,957 | 64,172 | 7,217 | 16,060 | 20,763 | 16,573 | 18,172 |
| **Liabilities** | | | | | | | |
| Settlement balances payable | 1,844 | 871 | - | - | - | - | 973 |
| Collateral received | 1,687 | 1,687 | - | - | - | - | - |
| Deposits and other borrowings | 90,678 | 61,191 | 9,586 | 9,507 | 2,103 | 1,575 | 6,716 |
| Derivative financial instruments | 17,230 | - | - | - | - | - | 17,230 |
| Debt issuances | 19,403 | 6,001 | 1,587 | - | 2,498 | 9,317 | - |
| Subordinated debt | 2,343 | - | 1,014 | - | - | 1,329 | - |
| Payables and other liabilities | 962 | 101 | - | - | 6 | 256 | 599 |
| Total financial liabilities | 134,147 | 69,851 | 12,187 | 9,507 | 4,607 | 12,477 | 25,518 |
| **Hedging instruments** | - | 34,623 | (20,949) | (1,214) | (11,354) | (1,106) | - |
| Interest sensitivity gap | 8,810 | 28,944 | (25,919) | 5,339 | 4,802 | 2,990 | (7,346) |

### Foreign currency related risks

This risk relates to the potential loss arising from the decline in the value of foreign currency positions due to changes in foreign exchange rates.

For non-traded instruments in foreign currencies, the risk is monitored and is hedged in accordance with policy. Risk arising from individual funding and other transactions is actively managed. The total amounts of unmatched foreign currency assets and liabilities, and consequent foreign currency exposures arising from each class of financial asset and liability, whether recognised or unrecognised, within each currency are not material.

The net open position in each foreign currency represents the net on-balance sheet assets and liabilities in that foreign currency aggregated with the net expected future cash flows from off-balance sheet purchases and sales from foreign exchange transactions in that foreign currency. The amounts are stated in New Zealand dollar equivalents translated using the spot exchange rates as at balance sheet date.

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| **Net open position** | | |
| Australian dollar | 26 | (1) |
| Euro | 6 | (13) |
| Japanese yen | (3) | (4) |
| US dollar | (5) | 34 |
| Other | 1 | 6 |
| Total net open position | 25 | 22 |

# NOTES TO THE FINANCIAL STATEMENTS

## Liquidity risk

Liquidity risk is the risk that the Banking Group is unable to meet its payment obligations as they fall due. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is closely monitored by the Banking Group.

The Banking Group's liquidity and funding risks are governed by a detailed policy framework which is approved by the Risk Committees of the Bank's and Ultimate Parent Bank's Boards. The core objective of the Banking Group's framework is to manage liquidity to meet obligations as they fall due, without incurring unacceptable losses.

Central to the Banking Group's liquidity risk management approach is the establishment of a liquidity risk appetite framework to which the Banking Group must conform at all times. The risk appetite for liquidity has been set as low, and this objective is achieved by the Banking Group managing liquidity risks within the boundaries of the following requirements and principles:

- Maintaining the ability to meet all payment obligations in the immediate term.
- Ensuring the ability to meet "survival horizons" under Banking Group specific and general market liquidity stress scenarios.
- Maintaining strength in the Banking Group's balance sheet structure to ensure long term resilience in the Banking Group's liquidity and funding risk profile.
- Limiting the potential earnings at risk associated with unexpected increases in funding costs or the liquidation of assets under stress.
- Ensuring the liquidity management framework is compatible with regulatory requirements.
- Daily liquidity reporting and scenario analysis, quantifying the Banking Group's positions.
- Targeting a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency.
- Holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations.
- Establishing detailed contingency plans to cover different liquidity crisis events.

Management of liquidity and funding risks are overseen by ALCO.

### Supervision and Regulation

The RBNZ requires the Bank to have a comprehensive Board approved liquidity strategy defining: policy, systems and procedures for measuring, assessing, reporting and managing domestic and foreign currency liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis. The Banking Group is required to meet one week and one month liquidity mismatch ratios and a one year core funding ratio each day.

### Scenario Modelling

A key component of the Banking Group's liquidity management framework is scenario modelling. Liquidity is assessed under different scenarios, including normal conditions, name crisis and funding market disruption.

*Normal conditions*: reflects the normal behaviour of cash flows in the ordinary course of business. The Banking Group must manage its short and long term wholesale funding to ensure there are no undue maturity concentrations within the wholesale funding profile over the following three months. Limits are applied within the three month period based on a combination of the Banking Group's demonstrated and assumed wholesale funding capacity.

*Name-crisis*: refers to a potential severe name-specific liquidity crisis scenario which models the behaviour of cash flows where there is a problem (real or perceived) which may include, but is not limited to, operational issues, doubts about the solvency of the Banking Group, or adverse rating changes. Under this scenario the Banking Group may have significant difficulty rolling over or replacing funding. Under the liquidity policy the Banking Group must have sufficient high quality liquid assets to meet its liquidity needs for the following 30 calendar days under this scenario.

*Funding market disruption:* The global financial crisis highlighted the importance of differentiating between a name specific crisis and the different behaviour that domestic and offshore funding markets can exhibit during market disruption events. Under the liquidity policy, the Banking Group must be able to meet its wholesale maturities under a scenario of protracted stress in domestic and offshore wholesale funding markets over a period of six months.

As of 30 September 2016 the Banking Group was in compliance with the above scenarios.

### Wholesale funding

The Banking Group's wholesale funding strategy is designed to deliver a sustainable portfolio of wholesale funds that balances cost efficiency while targeting diversification by markets, investors, currencies, maturities and funding structures. Short-term wholesale funding requirements, with a contractual maturity of less than one year, are managed through the Treasury and Markets operations. Long-term wholesale funding is managed and executed through Treasury operations.

The Banking Group also uses maturity concentration limits under the wholesale funding and liquidity management framework. Maturity concentration limits ensure that the Banking Group does not become reliant on issuing large volumes of new wholesale funding within a short time period. Funding instruments used to meet the wholesale borrowing requirement must be on a pre-established list of approved products.

# NOTES TO THE FINANCIAL STATEMENTS

### Funding capacity and debt issuance planning

The Banking Group adopts a conservative approach to determine its funding capacity. Annually, a funding plan is approved by the Bank's Board. The plan is supplemented by regular updates and is linked to the Banking Group's three year strategic planning cycle.

### Funding Composition

The Banking Group actively uses balance sheet disciplines to prudently manage the funding mix. The Banking Group employs funding metrics to ensure that an appropriate proportion of its assets are funded from stable sources, including customer liabilities, longer-dated wholesale debt (with remaining term exceeding one year) and equity. This approach recognises that long-term wholesale debt and other sticky liabilities have favourable liquidity characteristics.

Analysis of funding liabilities by industry sector is based on Australian and New Zealand Standard Industrial Classification (ANZSIC) codes.

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| **Customer deposits**[1] | | |
| New Zealand | 81,342 | 75,408 |
| Overseas | 10,018 | 9,462 |
| Total customer deposits | 91,360 | 84,870 |
| **Wholesale funding** | | |
| Debt issuances | 20,014 | 19,403 |
| Subordinated debt | 3,282 | 2,343 |
| Certificates of deposit | 2,237 | 745 |
| Commercial paper | 5,364 | 4,964 |
| Other borrowings | 105 | 99 |
| Total wholesale funding | 31,002 | 27,554 |
| Total funding | 122,362 | 112,424 |
| **Concentrations of funding by industry** | | |
| Agriculture | 2,989 | 2,871 |
| Forestry, fishing and mining | 618 | 656 |
| Business and property services | 6,751 | 6,304 |
| Construction | 1,588 | 1,283 |
| Entertainment, leisure and tourism | 1,010 | 1,021 |
| Finance and insurance | 40,383 | 35,331 |
| Government and local authority | 2,958 | 2,910 |
| Manufacturing | 2,004 | 1,913 |
| Households | 59,275 | 55,239 |
| Retail trade | 1,075 | 1,064 |
| Transport and storage | 653 | 745 |
| Wholesale trade | 1,274 | 1,312 |
| Other[2] | 1,784 | 1,775 |
| Total funding | 122,362 | 112,424 |
| **Concentrations of funding by geography** | | |
| New Zealand | 90,422 | 81,635 |
| Australia | 1,017 | 1,016 |
| United States | 12,215 | 12,332 |
| Europe | 11,448 | 10,388 |
| Other countries | 7,260 | 7,053 |
| Total funding | 122,362 | 112,424 |

1 Represents term deposits, other deposits bearing interest, deposits not bearing interest and UDC secured investments.
2 Other includes exposures to electricity, gas and water, communications and personal services.

# NOTES TO THE FINANCIAL STATEMENTS

### Liquidity portfolio management

The Banking Group holds a diversified portfolio of cash and high quality highly liquid securities to support liquidity risk management. The size of the Banking Group's liquidity portfolio is based on the amount required to meet its internal and regulatory liquidity scenario metrics.

**Total liquidity portfolio**

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| Cash and balances with central banks | 2,068 | 2,069 |
| Certificates of deposit | 1,124 | 468 |
| Government, local body stock and bonds | 6,117 | 5,063 |
| Government treasury bills | 811 | 1,155 |
| Reserve Bank bills | 100 | 799 |
| Other bonds | 6,483 | 5,930 |
| Total liquidity portfolio | 16,703 | 15,484 |

Assets held for managing liquidity risk include short term cash held with the RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated NZ domestic corporates. These assets would be accepted as collateral by the RBNZ in repurchase transactions. At 30 September 2016 the Banking Group would be eligible to enter into repurchase transactions with a value of NZ$13,515 million. The Banking Group also held unencumbered internal residential mortgage backed securities (RMBS) which would entitle the Banking Group to enter into repurchase transactions with a value of NZ$6,793 million at 30 September 2016.

### Liquidity crisis contingency planning

The Banking Group maintains liquidity crisis contingency plans defining an approach for analysing and responding to a liquidity-threatening event on a group wide basis. The framework includes:

- the establishment of crisis severity/stress levels
- clearly assigned crisis roles and responsibilities
- early warning signals indicative of an approaching crisis, and mechanisms to monitor and report these signals
- outlined action plans, and courses of action for altering asset and liability behaviour
- procedures for crisis management reporting, and covering cash-flow shortfalls
- guidelines determining the priority of customer relationships in the event of liquidity problems
- assigned responsibilities for internal and external communications.

# NOTES TO THE FINANCIAL STATEMENTS

**Contractual maturity analysis of financial assets and liabilities**

The following tables present the Banking Group's financial assets and liabilities within relevant contractual maturity groupings, based on the earliest date on which the Bank or the Banking Group may be required to realise an asset or settle a liability. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows, except for derivatives held for trading where the full mark-to-market amount has been included in the less than three months category. As a result, the amounts in the tables below may differ to the amounts reported on the balance sheet.

The contractual maturity analysis for off-balance sheet commitments and contingent liabilities has been prepared using the earliest date at which the Banking Group or the Bank can be called upon to pay. The liquidity risk of credit related commitments and contingent liabilities may be less than the contract amount, and does not necessarily represent future cash requirements as many of these facilities are expected to be only partially used or to expire unused.

The Banking Group does not manage its liquidity risk on this basis.

| 30/09/2016 | Total NZ$m | At call NZ$m | Up to 3 months NZ$m | Over 3 to 12 months NZ$m | Over 1 to 5 years NZ$m | Over 5 years NZ$m | No maturity specified NZ$m |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash | 2,274 | 2,045 | 229 | - | - | - | - |
| Settlement balances receivable | 396 | 58 | 338 | - | - | - | - |
| Collateral paid | 2,310 | - | 2,310 | - | - | - | - |
| Trading securities | 12,804 | - | 171 | 1,136 | 10,859 | 638 | - |
| Derivative financial assets (trading) | 19,513 | - | 19,513 | - | - | - | - |
| Available-for-sale assets | 2,923 | - | 1,670 | 283 | 969 | - | 1 |
| Net loans and advances | 147,972 | 246 | 15,350 | 17,562 | 50,168 | 64,646 | - |
| Other financial assets | 281 | - | 228 | 41 | 12 | - | - |
| Total financial assets | 188,473 | 2,349 | 39,809 | 19,022 | 62,008 | 65,284 | 1 |
| **Financial liabilities** | | | | | | | |
| Settlement balances payable | 1,740 | 1,111 | 629 | - | - | - | - |
| Collateral received | 529 | - | 529 | - | - | - | - |
| Deposits and other borrowings | 100,429 | 50,413 | 20,790 | 25,095 | 4,131 | - | - |
| Derivative financial liabilities (trading) | 19,374 | - | 19,374 | - | - | - | - |
| Debt issuances[1] | 20,983 | - | 2,363 | 1,882 | 13,466 | 3,272 | - |
| Subordinated debt[1] | 3,354 | - | 11 | 33 | 1,369 | 1,941 | - |
| Other financial liabilities | 264 | - | 33 | 7 | 93 | 131 | - |
| Total financial liabilities | 146,673 | 51,524 | 43,729 | 27,017 | 19,059 | 5,344 | - |
| **Derivative financial instruments used for balance sheet management** | | | | | | | |
| - gross inflows | 16,047 | - | 3,006 | 1,811 | 7,642 | 3,588 | - |
| - gross outflows | (16,844) | - | (3,492) | (1,823) | (7,874) | (3,655) | - |
| Net financial assets / (liabilities) after balance sheet management | 41,003 | (49,175) | (4,406) | (8,007) | 42,717 | 59,873 | 1 |

**Contractual maturity of off-balance sheet commitments and contingent liabilities**

| | Total NZ$m | Less than 1 year NZ$m | Beyond 1 year NZ$m |
|---|---|---|---|
| Non-credit related commitments | 460 | 92 | 368 |
| Credit related commitments | 27,296 | 27,296 | - |
| Contingent liabilities | 2,461 | 2,461 | - |
| Total | 30,217 | 29,849 | 368 |

[1] Any callable wholesale debt instruments have been included at their next call date. Refer to note 17 for subordinated debt call dates.

# NOTES TO THE FINANCIAL STATEMENTS

| 30/09/2015 | Total NZ$m | At call NZ$m | Up to 3 months NZ$m | Over 3 to 12 months NZ$m | Over 1 to 5 years NZ$m | Over 5 years NZ$m | No maturity specified NZ$m |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash | 2,380 | 2,041 | 339 | - | - | - | - |
| Settlement balances receivable | 309 | 140 | 169 | - | - | - | - |
| Collateral paid | 1,929 | - | 1,929 | - | - | - | - |
| Trading securities | 13,180 | - | 516 | 1,929 | 9,710 | 1,025 | - |
| Derivative financial assets (trading) | 16,432 | - | 16,432 | - | - | - | - |
| Available-for-sale assets | 1,454 | - | 1,078 | 11 | 363 | - | 2 |
| Net loans and advances | 141,418 | 252 | 15,399 | 16,397 | 49,731 | 59,639 | - |
| Other financial assets | 331 | - | 180 | 146 | 5 | - | - |
| Total financial assets | 177,433 | 2,433 | 36,042 | 18,483 | 59,809 | 60,664 | 2 |
| **Financial liabilities** | | | | | | | |
| Settlement balances payable | 1,803 | 1,188 | 615 | - | - | - | - |
| Collateral received | 1,687 | - | 1,687 | - | - | - | - |
| Deposits and other borrowings | 92,249 | 48,429 | 18,784 | 20,926 | 4,110 | - | - |
| Derivative financial liabilities (trading) | 14,700 | - | 14,700 | - | - | - | - |
| Debt issuances[1] | 20,315 | - | 2,217 | 3,207 | 13,498 | 1,393 | - |
| Subordinated debt[1] | 2,461 | - | 11 | 33 | 1,414 | 1,003 | - |
| Other financial liabilities | 547 | - | 176 | 9 | 107 | 255 | - |
| Total financial liabilities | 133,762 | 49,617 | 38,190 | 24,175 | 19,129 | 2,651 | - |
| **Derivative financial instruments used for balance sheet management** | | | | | | | |
| - gross inflows | 16,190 | - | 1,884 | 2,881 | 9,480 | 1,945 | - |
| - gross outflows | (17,123) | - | (1,909) | (3,049) | (10,166) | (1,999) | - |
| Net financial assets / (liabilities) after balance sheet management | 42,738 | (47,184) | (2,173) | (5,860) | 39,994 | 57,959 | 2 |

**Contractual maturity of off-balance sheet commitments and contingent liabilities**

| | Total NZ$m | Less than 1 year NZ$m | Beyond 1 year NZ$m |
|---|---|---|---|
| Non-credit related commitments | 514 | 59 | 455 |
| Credit related commitments | 26,903 | 26,903 | - |
| Contingent liabilities | 2,454 | 2,454 | - |
| Total | 29,871 | 29,416 | 455 |

[1] Any callable wholesale debt instruments have been included at their next call date. Prior period interest cash flows have been revised to improve comparability.

# NOTES TO THE FINANCIAL STATEMENTS

## 19. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

| | At amortised cost | At fair value through profit or loss | | Hedging | Available-for-sale assets | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| | | Designated on initial recognition | Held for trading | | | | |
| **30/09/2016** | NZ$m | NZ$m | NZ$m | NZ$m | NZ$m | NZ$m | NZ$m |
| Cash | 2,274 | - | - | - | - | 2,274 | 2,274 |
| Settlement balances receivable | 396 | - | - | - | - | 396 | 396 |
| Collateral paid | 2,310 | - | - | - | - | 2,310 | 2,310 |
| Trading securities | - | - | 11,979 | - | - | 11,979 | 11,979 |
| Derivative financial instruments[1] | - | - | 20,379 | 731 | - | 21,110 | 21,110 |
| Available-for-sale assets | - | - | - | - | 2,859 | 2,859 | 2,859 |
| Net loans and advances[2] | 114,623 | - | - | - | - | 114,623 | 114,891 |
| Other financial assets | 559 | 119 | - | - | - | 678 | 678 |
| Total financial assets | 120,162 | 119 | 32,358 | 731 | 2,859 | 156,229 | 156,497 |
| | | | | | | | |
| Settlement balances payable | 1,771 | - | - | - | - | 1,771 | 1,771 |
| Collateral received | 529 | - | - | - | - | 529 | 529 |
| Deposits and other borrowings | 93,702 | 5,364 | - | - | - | 99,066 | 99,169 |
| Derivative financial instruments[1] | - | - | 21,190 | 766 | - | 21,956 | 21,956 |
| Debt issuances[2] | 20,014 | - | - | - | - | 20,014 | 20,148 |
| Subordinated debt | 3,282 | - | - | - | - | 3,282 | 3,351 |
| Other financial liabilities | 482 | - | 157 | - | - | 639 | 639 |
| Total financial liabilities | 119,780 | 5,364 | 21,347 | 766 | - | 147,257 | 147,563 |
| | | | | | | | |
| **30/09/2015** | | | | | | | |
| Cash | 2,380 | - | - | - | - | 2,380 | 2,380 |
| Settlement balances receivable | 309 | - | - | - | - | 309 | 309 |
| Collateral paid | 1,929 | - | - | - | - | 1,929 | 1,929 |
| Trading securities | - | - | 12,139 | - | - | 12,139 | 12,139 |
| Derivative financial instruments[1] | - | - | 17,062 | 596 | - | 17,658 | 17,658 |
| Available-for-sale assets | - | - | - | - | 1,428 | 1,428 | 1,428 |
| Net loans and advances[2] | 106,357 | - | - | - | - | 106,357 | 106,854 |
| Other financial assets | 606 | 151 | - | - | - | 757 | 757 |
| Total financial assets | 111,581 | 151 | 29,201 | 596 | 1,428 | 142,957 | 143,454 |
| | | | | | | | |
| Settlement balances payable | 1,844 | - | - | - | - | 1,844 | 1,844 |
| Collateral received | 1,687 | - | - | - | - | 1,687 | 1,687 |
| Deposits and other borrowings | 85,714 | 4,964 | - | - | - | 90,678 | 90,832 |
| Derivative financial instruments[1] | - | - | 16,488 | 742 | - | 17,230 | 17,230 |
| Debt issuances[2] | 19,403 | - | - | - | - | 19,403 | 19,516 |
| Subordinated debt | 2,343 | - | - | - | - | 2,343 | 2,288 |
| Other financial liabilities | 653 | - | 309 | - | - | 962 | 962 |
| Total financial liabilities | 111,644 | 4,964 | 16,797 | 742 | - | 134,147 | 134,359 |

1 Derivative financial instruments classified as held for trading include derivatives entered into as economic hedges which are not designated as accounting hedges.

2 Fair value hedging is applied to certain financial assets within loans and advances and certain financial liabilities within debt issuances. The resulting fair value adjustment means that the carrying value differs from the amortised cost.

# NOTES TO THE FINANCIAL STATEMENTS

**Measurement of fair value**

*Valuation methodologies*

The Banking Group has an established control framework that ensures fair value is either determined or validated by a function independent of the party that undertakes the transaction. The control framework ensures that all models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data.

Where quoted market prices are used, prices are independently verified from other sources. For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of valuation models, any inputs to those models, any adjustments required outside of the valuation model and, where possible, independent validation of model outputs. In this way, continued appropriateness of the valuations is ensured.

In instances where the Banking Group holds offsetting risk positions, the Banking Group uses the portfolio exemption in NZ IFRS 13 *Fair Value Measurement* to measure the fair value of such groups of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (that is, an asset) for a particular risk exposure or to transfer a net short position (that is, a liability) for a particular risk exposure.

The Banking Group categorises its fair value measurements on the basis of inputs used in measuring fair value using the fair value hierarchy below:

- Level 1 – Financial instruments that have been valued by reference to unadjusted quoted prices in active markets for identical financial instruments. This category includes financial instruments valued using quoted yields where available for specific debt securities.
- Level 2 – Financial instruments that have been valued through valuation techniques incorporating inputs other than quoted prices within Level 1 that are observable for a similar financial asset or liability, either directly or indirectly.
- Level 3 – Financial instruments that have been valued using valuation techniques which incorporate significant inputs that are not based on observable market data (unobservable inputs).

*Valuation techniques and inputs used*

In the event that there is no quoted market price for the instrument, fair value is based on valuation techniques. The valuation models incorporate the impact of bid/ask spreads, counterparty credit spreads, funding costs and other factors that would influence the fair value determined by market participants.

The majority of valuation techniques employ only observable market data. However, for certain financial instruments the valuation technique may employ some data (valuation inputs or components) which is not readily observable in the current market. In these cases valuation inputs (or components of the overall value) are derived and extrapolated from other relevant market data and tested against historic transactions and observed market trends. To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependent on the significance of the unobservable input to the overall valuation.

The following valuation techniques have been applied to determine the fair values of financial instruments where there is no quoted price (level1) for the instrument:

- For instruments classified as trading securities and securities short sold, derivative financial assets and liabilities, available-for-sale assets, and investments backing insurance contract liabilities, fair value measurements are derived by using modelled valuations techniques (including discounted cash flow models) that incorporate market prices / yields for securities with similar credit risk, maturity and yield characteristics; and/or current market yields for similar instruments.
- For net loans and advances, deposits and other borrowings and debt issuances, discounted cash flow techniques are used where contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates or market borrowing rates of debt with similar maturities or a yield curve appropriate for the remaining term to maturity.

There have been no substantial changes in the valuation techniques applied to different classes of financial instruments during the year.

# NOTES TO THE FINANCIAL STATEMENTS

**Valuation hierarchy for financial assets and financial liabilities measured at fair value in the balance sheet**

| | 30/09/2016 | | | | 30/09/2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 NZ$m | Level 2 NZ$m | Level 3 NZ$m | Total NZ$m | Level 1 NZ$m | Level 2 NZ$m | Level 3 NZ$m | Total NZ$m |
| **Financial assets** | | | | | | | | |
| Trading securities | 11,967 | 12 | - | 11,979 | 11,880 | 259 | - | 12,139 |
| Derivative financial instruments | 3 | 21,100 | 7 | 21,110 | 12 | 17,640 | 6 | 17,658 |
| Available-for-sale assets | 1,671 | 1,187 | 1 | 2,859 | 900 | 526 | 2 | 1,428 |
| Investments backing insurance contract liabilities | 5 | 114 | - | 119 | 2 | 149 | - | 151 |
| Total | 13,646 | 22,413 | 8 | 36,067 | 12,794 | 18,574 | 8 | 31,376 |
| **Financial liabilities** | | | | | | | | |
| Deposits and other borrowings | - | 5,364 | - | 5,364 | - | 4,964 | - | 4,964 |
| Derivative financial instruments | 46 | 21,908 | 2 | 21,956 | 19 | 17,209 | 2 | 17,230 |
| Other financial liabilities | 157 | - | - | 157 | 309 | - | - | 309 |
| Total | 203 | 27,272 | 2 | 27,477 | 328 | 22,173 | 2 | 22,503 |

**Valuation hierarchy for financial assets and financial liabilities not measured at fair value[1]**

| | 30/09/2016 | | | | 30/09/2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 NZ$m | Level 2 NZ$m | Level 3 NZ$m | Total NZ$m | Level 1 NZ$m | Level 2 NZ$m | Level 3 NZ$m | Total NZ$m |
| **Financial assets** | | | | | | | | |
| Net loans and advances | - | 111,513 | 3,378 | 114,891 | - | 102,945 | 3,909 | 106,854 |
| **Financial liabilities** | | | | | | | | |
| Deposits and other borrowings | - | 93,805 | - | 93,805 | - | 85,868 | - | 85,868 |
| Debt issuances | 1,629 | 18,519 | - | 20,148 | 638 | 18,878 | - | 19,516 |
| Subordinated debt | 1,361 | 1,990 | - | 3,351 | 1,363 | 925 | - | 2,288 |
| Total | 2,990 | 114,314 | - | 117,304 | 2,001 | 105,671 | - | 107,672 |

1 Fair values, where the carrying amount is not considered a close approximation of fair value.

## 20. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following is an analysis of asset and liability line items in the balance sheet that combine amounts expected to be realised or due to be settled within one year and after more than one year.

| | 30/09/2016 | | | 30/09/2015 | | |
|---|---|---|---|---|---|---|
| | within one year NZ$m | after more than one year NZ$m | Total NZ$m | within one year NZ$m | after more than one year NZ$m | Total NZ$m |
| **Assets** | | | | | | |
| Investments backing insurance contract liabilities | 107 | 12 | 119 | 146 | 5 | 151 |
| Available-for-sale assets | 1,915 | 944 | 2,859 | 1,071 | 357 | 1,428 |
| Net loans and advances | 24,976 | 89,647 | 114,623 | 26,967 | 79,390 | 106,357 |
| Other assets | 598 | 103 | 701 | 657 | 83 | 740 |
| **Liabilities** | | | | | | |
| Deposits and other borrowings | 95,301 | 3,765 | 99,066 | 87,000 | 3,678 | 90,678 |
| Payables and other liabilities | 877 | 242 | 1,119 | 1,272 | 215 | 1,487 |
| Provisions | 108 | 98 | 206 | 95 | 96 | 191 |
| Debt issuances | 4,009 | 16,005 | 20,014 | 5,237 | 14,166 | 19,403 |

# NOTES TO THE FINANCIAL STATEMENTS

## 21. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

**Assets charged as security for liabilities[1]**

The carrying amounts of assets pledged as security are as follows:

| | Carrying Amount | | Related Liability | |
|---|---|---|---|---|
| | 30/09/2016 NZ$m | 30/09/2015 NZ$m | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
| Securities sold under agreements to repurchase | 77 | 47 | 76 | 47 |
| Residential mortgages pledged as security for covered bonds | 10,265 | 7,547 | 6,218 | 5,335 |
| Assets pledged as collateral for UDC secured investments | 2,665 | 2,441 | 1,592 | 1,736 |

UDC Secured Investments are secured by a security interest granted under the Trust Deed over all of UDC Finance Limited's (UDC) present and future assets and undertakings, to Trustees Executors Limited, as supervisor. The assets subject to the security interest comprise mainly loans to UDC's customers and certain plant and equipment. The security interest secures all amounts payable by UDC on the UDC Secured Investments and all other moneys payable by UDC under the Trust Deed.

**Collateral accepted as security for assets[1]**

The Banking Group has received collateral in relation to reverse repurchase agreements. These transactions are governed by standard industry agreements.

The fair value of collateral received and sold or repledged is as follows:

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| **Collateral received on standard reverse repurchase agreements** | | |
| Fair value of assets which can be sold | 231 | 339 |
| Fair value of assets sold or repledged | 141 | 269 |

[1] Excludes the amounts disclosed as collateral paid and received in the balance sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of the collateral agreements are included in the standard CSA that forms part of the ISDA.

# NOTES TO THE FINANCIAL STATEMENTS

## 22. OFFSETTING

The following information relates to financial assets and liabilities which have not been set off in the balance sheet but for which the Banking Group has enforceable master netting agreements in place with counterparties. No financial assets and liabilities have been set off in the balance sheet.

| | Gross amounts presented in the balance sheet | Related amounts not offset[1] | | |
|---|---|---|---|---|
| 30/09/2016 | NZ$m | Financial instruments NZ$m | Cash collateral NZ$m | Net amounts NZ$m |
| **Financial assets** | | | | |
| Collateral paid | 1,405 | - | (1,332) | 73 |
| Trading securities[2] | 77 | (76) | - | 1 |
| Derivative financial instruments | 7,618 | (7,280) | (323) | 15 |
| **Financial liabilities** | | | | |
| Collateral received | 358 | - | (323) | 35 |
| Securities sold under agreements to repurchase[3] | 76 | (76) | - | - |
| Derivative financial instruments | 8,768 | (7,280) | (1,332) | 156 |
| **30/09/2015** | | | | |
| **Financial assets** | | | | |
| Collateral paid | 1,139 | - | (1,112) | 27 |
| Trading securities[2] | 47 | (47) | - | - |
| Derivative financial instruments | 7,007 | (6,201) | (781) | 25 |
| **Financial liabilities** | | | | |
| Collateral received | 960 | - | (781) | 179 |
| Securities sold under agreements to repurchase[3] | 47 | (47) | - | - |
| Derivative financial instruments | 7,349 | (6,201) | (1,112) | 36 |

[1] The Banking Group enters into derivatives and repurchase and reverse repurchase agreements with various counterparties which are governed by industry standard master netting agreements. The Banking Group holds and provides cash and securities collateral in respective of derivative transactions covered by these agreements. The right to set off balances under these master netting agreements or to set off cash and securities collateral only arises in the event of non-payment or default and, as a result, these arrangements do not qualify for offsetting under NZ IAS 32 *Financial Instruments: Presentation*.

[2] This is the amount of trading securities encumbered through repurchase agreements, see financial assets pledged as collateral table in note 21.

[3] Included in deposits and other borrowings, see note 15.

# NOTES TO THE FINANCIAL STATEMENTS

## 23. CREDIT RELATED COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| Contract amount of: | | |
| **Credit related commitments - facilities provided** | | |
| Undrawn facilities[1] | 27,296 | 26,903 |
| **Guarantees and contingent liabilities** | | |
| Guarantees and letters of credit | 850 | 1,002 |
| Performance related contingencies | 1,611 | 1,452 |
| Total guarantees and contingent liabilities | 2,461 | 2,454 |
| Total Credit Related Commitments, Guarantees and Contingent Liabilities | 29,757 | 29,357 |

[1] The comparative amount for undrawn facilities has been reduced by NZ$5,518 million following a review of the composition of commitments.

These guarantees and contingent liabilities relate to transactions that the Banking Group has entered into as principal, including guarantees, standby letters of credit and documentary letters of credit.

Documentary letters of credit involve the issue of letters of credit guaranteeing payment in favour of an exporter secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingencies are liabilities that oblige the Banking Group to make payments to a third party should the customer fail to fulfil the non-monetary terms of the contract.

To reflect the risk associated with these transactions, they are subjected to the same credit origination, portfolio management and collateral requirements as customers that apply for loans. The contract amount represents the maximum potential amount that could be lost if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

### Other contingent liabilities

In June 2013, litigation funder Litigation Lending Services (NZ) Limited filed a representative action against the Bank regarding certain fees charged to New Zealand customers. The representative action has been settled with the Bank making a contribution to the claimants' costs. The Bank has not admitted liability and all claims against it have been formally discontinued.

The Banking Group has other contingent liabilities in respect of actual and possible claims and court proceedings.

An assessment of the Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision made where deemed necessary.

# NOTES TO THE FINANCIAL STATEMENTS

## 24. OTHER ASSETS

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| Accrued interest and prepaid discounts | 397 | 426 |
| Accrued commission | 22 | 22 |
| Share-based payments asset | 103 | 83 |
| Prepaid expenses | 19 | 24 |
| Other assets | 160 | 185 |
| Total other assets | 701 | 740 |

## 25. GOODWILL AND OTHER INTANGIBLE ASSETS

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| Goodwill | 3,233 | 3,233 |
| Software | 76 | 139 |
| Other intangibles | 115 | 120 |
| Total goodwill and other intangible assets | 3,424 | 3,492 |

## 26. PAYABLES AND OTHER LIABILITIES

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| Creditors | 60 | 121 |
| Accrued interest and unearned discounts | 436 | 479 |
| Defined benefits plan obligations | 28 | 43 |
| Accrued charges | 169 | 240 |
| Securities short sold (classified as held for trading) | 157 | 309 |
| Liability for acceptances | 27 | 52 |
| Share-based payments liability | 86 | 65 |
| Life insurance contract liabilities - reinsurance | 128 | 107 |
| Other liabilities | 28 | 71 |
| Total payables and other liabilities | 1,119 | 1,487 |

## 27. PROVISIONS

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| Employee annual and long service leave | 126 | 129 |
| Other[1] | 80 | 62 |
| Total provisions | 206 | 191 |

1 Includes provisions for surplus leased space, make-good of leased premises, seismic obligations, and restructuring costs.

# NOTES TO THE FINANCIAL STATEMENTS

## 28. SHARE CAPITAL

| | Number of issued shares | | NZ$ millions | |
|---|---|---|---|---|
| | 30/09/2016 | 30/09/2015 | 30/09/2016 | 30/09/2015 |
| **Ordinary shares** | | | | |
| At beginning of the year | 3,345,755,498 | 2,670,755,498 | 8,588 | 7,913 |
| Issued during the year | - | 675,000,000 | - | 675 |
| Ordinary shares at end of the year | 3,345,755,498 | 3,345,755,498 | 8,588 | 8,588 |
| **Preference shares** | | | | |
| At beginning of the year | 300,000,000 | 300,000,000 | 300 | 300 |
| Preference shares at end of the year | 300,000,000 | 300,000,000 | 300 | 300 |
| Total share capital | 3,645,755,498 | 3,645,755,498 | 8,888 | 8,888 |

### Ordinary shares

650,712 of the ordinary shares are uncalled (2015: 650,712 shares uncalled).

During the year ended 30 September 2016 the Bank paid ordinary dividends of NZ$1,350 million (2015: NZ$1,745 million) to the Immediate Parent Company (equivalent to NZ$0.40 per share) (2015: equivalent to NZ$0.65 per share).

All ordinary shares share equally in dividends and any proceeds available to ordinary shareholders on winding up of the Bank. On a show of hands every member who is present at a meeting in person or by proxy or by representative is entitled to one vote, and upon a poll every member shall have one vote for each share held.

### Preference shares

All preference shares were issued by the Bank to the Immediate Parent and do not carry any voting rights. The preference shares are wholly classified as equity instruments as there is no contractual obligation for the Bank to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavourable basis. The key terms of the preference shares are as follows:

*Dividends*

Dividends are payable at the discretion of the directors of the Bank and are non-cumulative. The Bank must not resolve to pay any dividend or make any other distribution on its ordinary shares until the next preference dividend payment date if the dividend on the preference shares is not paid.

Should the Bank elect to pay a dividend, the dividend is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 325 basis point margin, multiplied by one minus the New Zealand company tax rate, with dividend payments due on 1 March and 1 September each year, beginning on 1 March 2014.

*Redemption features*

The preference shares are redeemable, subject to prior written approval of the RBNZ, by the Bank providing notice in writing to holders of the preference shares:

- on any date on or after a change to laws or regulations that adversely affects the regulatory capital or tax treatment of the preference shares or
- on any dividend payment date on or after 1 March 2019 or
- on any date after 1 March 2019 if the Bank has ceased to be a wholly owned subsidiary of the Ultimate Parent Bank.

The preference shares may be redeemed for nil consideration should a non-viability trigger event occur.

*Rights of holders in event of liquidation*

In the event of liquidation, holders of preference shares are entitled to available subscribed capital per share, pari passu with all holders of existing preference shares and ANZ capital notes but in priority to all holders of ordinary shares. They have no entitlement to participate in further distribution of profits or assets.

The preference shares qualify as “additional tier 1 capital” for capital adequacy purposes.

# NOTES TO THE FINANCIAL STATEMENTS

## 29. CAPITAL ADEQUACY

**Capital management policies**

The Banking Group's core capital objectives are to:

- Protect the interests of depositors, creditors and shareholders
- Ensure the safety and soundness of the Banking Group's capital position
- Ensure that the capital base supports the Banking Group's risk appetite, and strategic business objectives, in an efficient and effective manner.

The Board holds ultimate responsibility for ensuring that capital adequacy is maintained. This includes: setting, monitoring and obtaining assurance for the Banking Group's Internal Capital Adequacy Assessment Process ("ICAAP") policy and framework; standardised risk definitions for all material risks; materiality thresholds; capital adequacy targets; internal economic risk capital principles; and risk appetite.

The Banking Group has minimum and trigger levels for common equity tier 1, tier 1 and total capital that ensure sufficient capital is maintained to:

- Meet minimum prudential requirements imposed by regulators
- Ensure consistency with the Banking Group's overall risk profile and financial positions, taking into account its strategic focus and business plan
- Support the economic risk capital requirements of the business.

The Banking Group's Asset & Liability Committee and its related Capital Management Forum are responsible for developing, implementing and maintaining the Banking Group's ICAAP framework, including ongoing monitoring, reporting and compliance. The Banking Group's ICAAP is subject to independent and periodic review conducted by Internal Audit.

The Banking Group has complied with all externally imposed capital requirements to which it is subject during the current and comparative periods.

| Basel III capital ratios | RBNZ minimum ratios | Banking Group 30/09/2016 | Banking Group 30/09/2015 | Bank 30/09/2016 | Bank 30/09/2015 |
|---|---|---|---|---|---|
| **Unaudited** | | | | | |
| Common equity tier 1 capital | 4.5% | 10.0% | 10.5% | 8.9% | 9.4% |
| Tier 1 capital | 6.0% | 13.2% | 12.7% | 12.2% | 11.8% |
| Total capital | 8.0% | 13.7% | 13.6% | 12.8% | 12.7% |
| Buffer ratio | 2.5% | 5.5% | 5.6% | | |

# NOTES TO THE FINANCIAL STATEMENTS

## Capital of the Banking Group

| | Note | Unaudited 30/09/2016 NZ$m |
|---|---|---|
| **Tier 1 capital** | | |
| *Common equity tier 1 capital* | | |
| Paid up ordinary shares issued by the Bank | 28 | 8,588 |
| Retained earnings (net of appropriations) | | 3,760 |
| Accumulated other comprehensive income and other disclosed reserves | | 62 |
| *Less deductions from common equity tier 1 capital* | | |
| Goodwill and intangible assets, net of associated deferred tax liabilities | | (3,412) |
| Cash flow hedge reserve | | (62) |
| Expected losses to the extent greater than total eligible allowances for impairment | | (211) |
| Common equity tier 1 capital | | 8,725 |
| *Additional tier 1 capital* | | |
| Preference shares | 28 | 300 |
| ANZ Capital Notes | 17 | 2,441 |
| Capital attributable to The Bonus Bonds Trust investors | | 39 |
| Additional tier 1 capital | | 2,780 |
| Total tier 1 capital | | 11,505 |
| | | |
| **Tier 2 capital** | | |
| *Qualifying tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements* | | |
| NZD 835,000,000 perpetual subordinated bond | 17 | 835 |
| *Less deductions from tier 2 capital* | | |
| Basel III transition adjustment[1] | | (367) |
| Total tier 2 capital | | 468 |
| Total capital | | 11,973 |

## Capital requirements of the Banking Group

| Unaudited 30/09/2016 | Exposure at default NZ$m | Risk weighted exposure or implied risk weighted exposure[2] NZ$m | Total capital requirement NZ$m |
|---|---|---|---|
| Exposures subject to internal ratings based approach | 157,545 | 60,363 | 4,829 |
| Specialised lending exposures subject to slotting approach | 11,017 | 10,049 | 804 |
| Exposures subject to standardised approach | 2,100 | 376 | 30 |
| Equity exposures | 7 | 31 | 2 |
| Other exposures | 3,636 | 1,687 | 135 |
| Total credit risk | 174,305 | 72,506 | 5,800 |
| Operational risk | n/a | 6,052 | 484 |
| Market risk | n/a | 8,561 | 685 |
| Total | 174,305 | 87,119 | 6,969 |

[1] Certain instruments issued by the Bank qualify as tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements. Fixing the base at the nominal amount of such instruments outstanding at 31 December 2012, their recognition is capped at 40% from 1 January 2016; 20% from 1 January 2017; and from 1 January 2018 onwards these instruments will not be included in regulatory capital.

[2] Total credit risk weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

# NOTES TO THE FINANCIAL STATEMENTS

## Implementation of the advanced internal ratings based approach to credit risk measurement

The Banking Group adheres to the standards of risk grading and risk quantification as set out for Internal Ratings Based (IRB) banks in the RBNZ document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B).

Under this IRB Framework banks use their own measures for calculating the level of credit risk associated with customers and exposures, by way of the primary components of:

*Probability of Default (PD)*: An estimate of the level of risk of borrower default graded by way of rating models used both at loan origination and for ongoing monitoring.

*Exposure at Default (EAD)*: The expected facility exposure at default. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

*Loss Given Default (LGD)*: An estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD. For Retail Mortgage exposures the Bank is required to apply the downturn LGDs according to loan to value (LVR) bands as set out in BS2B. For farm lending exposures the Banking Group is required to adopt RBNZ prescribed downturn LVR based LGDs, along with a minimum maturity of 2.5 years and the removal of the firm-size adjustment.

For exposures classified under Specialised Lending, the Banking Group uses slotting tables supplied by the RBNZ rather than internal estimates.

The exceptions to IRB treatment are three minor portfolios where, due to systems constraints, determining these IRB risk estimates is not currently feasible or appropriate. Risk weights for these exposures are calculated under a separate treatment as set out in the RBNZ document *Capital Adequacy Framework (Standardised Approach)* (BS2A).

## Classification of Banking Group exposures according to rating approach

***Internal ratings based approach***

| IRB Asset Class | Borrower Type | Rating Approach |
|---|---|---|
| Sovereign | Crown | IRB - Advanced |
| | RBNZ | IRB - Advanced |
| | Any other sovereign and its central bank | IRB - Advanced |
| Bank | Registered banks | IRB - Advanced |
| Corporate | Corporation, partnerships or proprietorships that do not fit any other asset classification | IRB - Advanced |
| | Corporate Small to Medium Enterprises ("SME") with turnover of less than NZ$50 million | IRB - Advanced |
| Retail Mortgages | Individuals' borrowings against residential property | IRB - Advanced |
| Other Retail | Other lending to individuals (including credit cards) | IRB - Advanced |
| | SME business borrowers | IRB - Advanced |
| Corporate sub-class - Specialised lending | Project finance | IRB - Slotting |
| | Income producing real estate | IRB - Slotting |
| Equity | | IRB |
| Other assets | All other assets not falling within any of the above classes | IRB |

***Standardised approach***

| Exposure class | Exposure Type | Reason for Standardised Approach | Future Treatment |
|---|---|---|---|
| Corporate | Merchant card prepayment exposures | System constraints | Move to IRB |
| | Corporate credit cards | System constraints | Move to IRB |
| Bank | Qualifying Central Counterparty (QCCP) | Required by Basel III | Standardised |

# NOTES TO THE FINANCIAL STATEMENTS

### Controls surrounding credit risk rating systems

The term "Rating Systems" covers all of the methods, processes, controls, data collection and technology that support the assessment of credit risk, the assignment of internal credit risk ratings and the quantification of associated default and loss estimates.

All material aspects of the Rating Systems and risk estimate processes are governed by the Banking Group's Risk Committee. Risk grades are an integral part of reporting to senior management and executives. Management and staff of credit risk functions, in conjunction with the relevant Retail and Wholesale Risk Committees, regularly assess the performance of the rating systems, identify any areas for improvement and monitor progress on previously identified development work needed.

The Banking Group's Rating Systems are governed by a comprehensive framework of controls that operate at the business unit and support centres, and through central audit and validation processes. All policies, model designs, model reviews, methodologies, validations, responsibilities, systems and processes supporting the ratings systems are fully documented.

The Banking Group's Retail and Wholesale ratings functions work closely with the Ultimate Parent Bank's risk ratings functions, are independent of operational lending activities and are responsible for the ratings strategies and ongoing management of credit risk models within New Zealand. The annual review of models used across the Banking Group is a function undertaken by the ANZ Decision Model Validation Unit, which is also independent of credit risk operational functions and is responsible for overseeing the design, implementation and performance of all rating models in the Banking Group.

The target approach to modelling for the Banking Group is to deploy the model most suitable for the environment. At present this involves an approach to modelling that combines models developed in New Zealand and models developed by the Ultimate Parent Bank, tested and validated for use in New Zealand, as appropriate.

### Capital requirements by asset class under the IRB approach

| Unaudited 30/09/2016 | Total exposure or principal amount NZ$m | Exposure at default NZ$m | Exposure-weighted LGD used for the capital calculation % | Exposure-weighted risk weight % | Risk weighted exposure NZ$m | Total capital requirement NZ$m |
|---|---|---|---|---|---|---|
| **On-balance sheet exposures** | | | | | | |
| Corporate | 35,808 | 35,820 | 36 | 59 | 22,396 | 1,791 |
| Sovereign | 11,237 | 11,027 | 5 | 1 | 112 | 9 |
| Bank | 8,094 | 6,570 | 58 | 18 | 1,268 | 103 |
| Retail mortgages | 64,660 | 64,884 | 20 | 22 | 15,374 | 1,230 |
| Other retail | 5,049 | 5,149 | 76 | 96 | 5,260 | 420 |
| Total on-balance sheet exposures | 124,848 | 123,450 | 27 | 34 | 44,410 | 3,553 |
| **Off-balance sheet exposures** | | | | | | |
| Corporate | 12,387 | 10,369 | 50 | 50 | 5,472 | 438 |
| Sovereign | 275 | 160 | 5 | 1 | 1 | - |
| Bank | 1,379 | 1,123 | 51 | 18 | 216 | 17 |
| Retail mortgages | 8,272 | 8,662 | 17 | 15 | 1,415 | 113 |
| Other retail | 5,563 | 5,611 | 79 | 56 | 3,319 | 266 |
| Total off-balance sheet exposures | 27,876 | 25,925 | 45 | 38 | 10,423 | 834 |
| **Market related contracts** | | | | | | |
| Corporate | 105,432 | 3,254 | 60 | 88 | 3,019 | 242 |
| Sovereign | 12,430 | 463 | 5 | 41 | 201 | 16 |
| Bank | 841,969 | 4,453 | 59 | 49 | 2,310 | 184 |
| Total market related contracts | 959,831 | 8,170 | 56 | 64 | 5,530 | 442 |
| Total credit risk exposures subject to the IRB approach | 1,112,555 | 157,545 | 32 | 36 | 60,363 | 4,829 |

# NOTES TO THE FINANCIAL STATEMENTS

## IRB exposures by customer credit rating

| Unaudited 30/09/2016 | Probability of default % | Exposure at default NZ$m | Exposure-weighted LGD used for the capital calculation % | Exposure-weighted risk weight % | Risk weighted exposure NZ$m | Total capital requirement NZ$m |
|---|---|---|---|---|---|---|
| **Corporate** | | | | | | |
| 0 - 2 | 0.06 | 6,300 | 63 | 46 | 3,090 | 247 |
| 3 - 4 | 0.32 | 22,104 | 37 | 42 | 9,811 | 785 |
| 5 | 1.03 | 13,050 | 36 | 64 | 8,880 | 710 |
| 6 | 2.26 | 5,688 | 37 | 84 | 5,071 | 406 |
| 7 - 8 | 8.49 | 1,846 | 43 | 158 | 3,100 | 248 |
| Default | 100.00 | 455 | 43 | 194 | 935 | 75 |
| Total corporate exposures | 1.92 | 49,443 | 40 | 59 | 30,887 | 2,471 |
| **Sovereign** | | | | | | |
| 0 | 0.01 | 11,501 | 5 | 3 | 311 | 25 |
| 1 - 8 | 0.03 | 149 | 5 | 2 | 3 | - |
| Total sovereign exposures | 0.01 | 11,650 | 5 | 3 | 314 | 25 |
| **Bank** | | | | | | |
| 0 | 0.03 | 57 | 65 | 24 | 14 | 1 |
| 1 | 0.03 | 10,859 | 58 | 27 | 3,135 | 251 |
| 2 - 4 | 0.09 | 1,223 | 59 | 49 | 636 | 51 |
| 5 - 8 | 1.70 | 7 | 65 | 126 | 9 | 1 |
| Total bank exposures | 0.04 | 12,146 | 58 | 29 | 3,794 | 304 |
| **Retail mortgages** | | | | | | |
| 0 - 3 | 0.20 | 18,244 | 12 | 5 | 963 | 77 |
| 4 | 0.46 | 27,370 | 19 | 15 | 4,230 | 338 |
| 5 | 0.92 | 21,964 | 24 | 32 | 7,429 | 594 |
| 6 | 2.00 | 5,358 | 28 | 63 | 3,580 | 286 |
| 7 - 8 | 5.13 | 444 | 29 | 104 | 491 | 39 |
| Default | 100.00 | 166 | 23 | 54 | 96 | 9 |
| Total retail mortgages exposures | 0.90 | 73,546 | 19 | 22 | 16,789 | 1,343 |
| **Other retail** | | | | | | |
| 0 - 2 | 0.10 | 654 | 78 | 48 | 331 | 26 |
| 3 - 4 | 0.26 | 4,794 | 78 | 54 | 2,768 | 221 |
| 5 | 0.99 | 1,763 | 73 | 73 | 1,369 | 110 |
| 6 | 2.11 | 1,686 | 75 | 91 | 1,626 | 130 |
| 7 - 8 | 7.86 | 1,794 | 83 | 128 | 2,428 | 194 |
| Default | 100.00 | 69 | 78 | 77 | 57 | 5 |
| Total other retail exposures | 2.57 | 10,760 | 78 | 75 | 8,579 | 686 |
| Total credit risk exposures subject to the IRB approach | 1.20 | 157,545 | 32 | 36 | 60,363 | 4,829 |

Credit risk exposures subject to the IRB approach have been derived in accordance with BS2B and other relevant correspondence with RBNZ setting out prescribed credit risk estimates.

# NOTES TO THE FINANCIAL STATEMENTS

## Specialised lending subject to the slotting approach

| Unaudited 30/09/2016 | Exposure at default NZ$m | Risk weight % | Risk weighted exposure NZ$m | Total capital requirement NZ$m |
|---|---|---|---|---|
| **On-balance sheet exposures** | | | | |
| Strong | 3,351 | 70 | 2,487 | 199 |
| Good | 5,725 | 90 | 5,462 | 437 |
| Satisfactory | 447 | 115 | 545 | 44 |
| Weak | 88 | 250 | 234 | 19 |
| Default | 46 | - | - | - |
| Total on-balance sheet exposures | 9,657 | 85 | 8,728 | 699 |

| | Exposure amount NZ$m | Exposure at default NZ$m | Average risk weight % | Risk weighted exposure NZ$m | Total capital requirement NZ$m |
|---|---|---|---|---|---|
| **Off-balance sheet exposures** | | | | | |
| Undrawn commitments and other off balance sheet exposures | 1,392 | 1,211 | 85 | 1,091 | 87 |
| Market related contracts | 1,948 | 149 | 146 | 230 | 18 |
| Total off-balance sheet exposures | 3,340 | 1,360 | 92 | 1,321 | 105 |

Specialised lending exposures subject to the slotting approach have been calculated in accordance with BS2B.

The supervisory categories of specialised lending above are associated with specific risk-weights. These categories broadly correspond to the following external credit assessments using Standard & Poor's rating scale, Strong: BBB- or better, Good: BB+ or BB, Satisfactory: BB- or B+ and Weak: B to C-.

## Credit risk exposures subject to the standardised approach

| Unaudited 30/09/2016 | Exposure at default NZ$m | Risk weight % | Risk weighted exposure NZ$m | Total capital requirement NZ$m |
|---|---|---|---|---|
| **On-balance sheet exposures** | | | | |
| Corporates | 49 | 100 | 51 | 4 |
| Default | 1 | 150 | 1 | - |
| Total on-balance sheet exposures | 50 | 101 | 52 | 4 |

| | Exposure amount NZ$m | Average credit conversion factor % | Exposure at default NZ$m | Average risk weight % | Risk weighted exposure NZ$m | Total capital requirement NZ$m |
|---|---|---|---|---|---|---|
| **Off-balance sheet exposures** | | | | | | |
| Undrawn commitments and other off balance sheet exposures | 489 | 51 | 250 | 94 | 248 | 20 |
| Market related contracts | 606,149 | - | 1,800 | 4 | 76 | 6 |
| Total off balance sheet | 606,638 | n/a | 2,050 | 15 | 324 | 26 |

Credit exposures subject to the Standardised Approach have been calculated in accordance with BS2A.

# NOTES TO THE FINANCIAL STATEMENTS

### Equity exposures

| Unaudited 30/09/2016 | Exposure at default NZ$m | Risk weight % | Risk weighted exposure NZ$m | Total capital requirement NZ$m |
|---|---|---|---|---|
| All equity holdings not deducted from capital | 7 | 400 | 31 | 2 |

Equity exposures have been calculated in accordance with BS2B.

### Other exposures

| Unaudited 30/09/2016 | Exposure at default NZ$m | Risk weight % | Risk weighted exposure NZ$m | Total capital requirement NZ$m |
|---|---|---|---|---|
| Cash | 193 | - | - | - |
| New Zealand dollar denominated claims on the Crown and the RBNZ | 1,852 | - | - | - |
| Other assets | 1,591 | 100 | 1,687 | 135 |
| Total other IRB credit risk exposures | 3,636 | 44 | 1,687 | 135 |

Other exposures have been calculated in accordance with BS2B.

### Credit risk mitigation

The Banking Group assesses the integrity and ability of counterparties to meet their contractual financial obligations for repayment. The Banking Group generally takes collateral security in the form of real property or a security interest in personal property, except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance, in the form of housing loans, is generally secured against real estate while short term revolving consumer credit is generally unsecured.

As at 30 September 2016, under the IRB approach, the Banking Group had NZ$1,165 million of Corporate exposures covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

### Operational risk

The Banking Group uses the Advanced Measurement Approach for determining its regulatory capital requirement for operational risk calculated in accordance with BS2B. As at 30 September 2016 the Banking Group had an implied risk weighted exposure of NZ$6,052 million for operational risk and an operational risk capital requirement of NZ$484 million.

Operational risk capital is modelled at a New Zealand geographic level and then distributed and adjusted for the business environment and internal controls down to the business units using the Risk Scenario Methodology. This methodology ensures that there is sufficient operational risk capital held as a buffer for rare and severe unexpected operational loss events that may impact the New Zealand business. The Methodology applies a combination of expert judgement, business unit risk profiles, audit findings, and internal and external loss events to derive a series of business specific Risk Scenarios that are applied to the capital model. The Risk Scenario approach

- assesses the level of the Bank's exposure to specified risk scenarios;
- assesses the scope and quality of the Bank's internal control environment, key operational processes and risk mitigants; and
- directly links the risk scenarios to operational risk capital.

The Banking Group's operating risk capital is calculated using the Ultimate Parent Bank’s methodology, but with standalone New Zealand inputs to ensure there are no diversification benefits.

The Banking Group does not incorporate any insurance mitigation impact into its capital number. Accordingly, there are no insurance related questions contained within the Risk Scenario Methodology.

# NOTES TO THE FINANCIAL STATEMENTS

## Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B. The peak end-of-day market risk exposures are for the half-year ended 30 September 2016.

| | Implied risk weighted exposure | | Aggregate capital charge | | Peak |
|---|---|---|---|---|---|
| | Period end | Peak | Period end | Peak | occurred on |
| Unaudited 30/09/2016 | NZ$m | NZ$m | NZ$m | NZ$m | |
| Interest rate risk | 8,525 | 9,388 | 682 | 751 | 15/09/2016 |
| Foreign currency risk | 35 | 130 | 3 | 10 | 17/05/2016 |
| Equity risk | 1 | 2 | - | - | 29/06/2016 |
| | 8,561 | | 685 | | |

## Capital for other material risks

The Banking Group has an Internal Capital Adequacy Assessment Process (ICAAP) which complies with the requirements of the Bank's Conditions of Registration.

Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier 1 and total capital ratios. The other material risks identified by the Banking Group include pension risk, insurance risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk, value in-force risk, business retention risk and software risk.

The Banking Group's internal capital allocation for these other material risks is NZ$441 million (2015: NZ$479 million).

The Banking Group regularly reviews the methodologies used to calculate the economic capital allocated to other material risks.

## Capital adequacy of the Ultimate Parent Bank

### Basel III capital ratios

| | Overseas Banking Group | | Ultimate Parent Bank (Extended Licensed Entity) | |
|---|---|---|---|---|
| | 30/09/2016 | 30/09/2015 | 30/09/2016 | 30/09/2015 |
| **Unaudited** | | | | |
| Common equity tier 1 capital | 9.6% | 9.6% | 9.7% | 9.6% |
| Tier 1 capital | 11.8% | 11.3% | 12.1% | 11.6% |
| Total capital | 14.3% | 13.3% | 14.7% | 13.7% |

For calculation of minimum capital requirements under Pillar 1 (Capital Requirements) of the Basel Accord, APRA has accredited the Overseas Banking Group to use the Advanced Internal Ratings Based (AIRB) methodology for calculation of credit risk weighted assets and the Advanced Measurement Approach (AMA) for the operational risk weighted asset equivalent.

Under prudential regulations, the Overseas Banking Group is required to maintain a Prudential Capital Ratio (PCR) as determined by APRA. The Overseas Banking Group exceeded the PCR set by APRA as at 30 September 2016 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2016. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 30 September 2016, in accordance with APS 330: *Public Disclosure of Prudential Information*, discloses capital adequacy ratios and other prudential information. This document can be accessed at the website anz.com.

# NOTES TO THE FINANCIAL STATEMENTS

### Residential mortgages by loan-to-valuation ratio

As required by the RBNZ, LVRs are calculated as the current exposure secured by a residential mortgage divided by the Banking Group's valuation of the security property at origination of the exposure. Off balance sheet exposures include undrawn and partially drawn residential mortgage loans as well as commitments to lend. Commitments to lend are formal offers for housing lending which have been accepted by the customer.

| | 30/09/2016 | | |
|---|---|---|---|
| **Unaudited** | **On-balance sheet NZ$m** | **Off-balance sheet NZ$m** | **Total NZ$m** |
| **LVR range** | | | |
| Does not exceed 60% | 26,830 | 4,760 | 31,590 |
| Exceeds 60% and not 70% | 14,193 | 1,499 | 15,692 |
| Exceeds 70% and not 80% | 17,857 | 1,604 | 19,461 |
| Does not exceed 80% | 58,880 | 7,863 | 66,743 |
| Exceeds 80% and not 90% | 3,968 | 198 | 4,166 |
| Exceeds 90% | 1,812 | 211 | 2,023 |
| Total | 64,660 | 8,272 | 72,932 |

### Reconciliation of mortgage related amounts

| **Unaudited** | **Note** | **30/09/2016 NZ$m** |
|---|---|---|
| Term loans - housing | 13 | 67,298 |
| Less: fair value hedging adjustment | | (138) |
| Less: housing loans made to corporate customers | | (2,524) |
| Add: unsettled re-purchases of mortgages from the NZ Branch | | 24 |
| On-balance sheet retail mortgage exposures subject to the IRB approach | 18 | 64,660 |
| Add: off-balance sheet retail mortgage exposures subject to the IRB approach | | 8,272 |
| Total retail mortgage exposures subject to the IRB approach (as per LVR analysis) | | 72,932 |

# NOTES TO THE FINANCIAL STATEMENTS

## 30. SUBSIDIARIES

The following table lists the principal subsidiaries of the Bank. Principal subsidiaries are those that have transactions or balances with parties outside the Banking Group. All subsidiaries are 100% owned and incorporated in New Zealand unless stated otherwise.

| Principal subsidiaries | Nature of business |
|---|---|
| ANZ Investment Services (New Zealand) Limited | Funds management |
| ANZ New Zealand (Int'l) Limited | Finance |
| ANZ New Zealand Investments Limited | Funds management |
| ANZ New Zealand Securities Limited | On-line share broker |
| ANZNZ Covered Bond Trust[1] | Securitisation entity |
| Arawata Assets Limited | Property |
| Karapiro Investments Limited | Investment |
| Kingfisher NZ Trust 2008-1[1] | Securitisation entity |
| OnePath Life (NZ) Limited | Insurance |
| UDC Finance Limited | Asset finance |

1 The Banking Group does not own ANZNZ Covered Bond Trust and Kingfisher NZ Trust 2008-1. Control exists as the Banking Group retains substantially all the risks and rewards of the operations. Details of the Banking Group's interest in consolidated structured entities is included in note 31.

# NOTES TO THE FINANCIAL STATEMENTS

## 31. STRUCTURED ENTITIES, TRANSFERRED FINANCIAL ASSETS, FIDUCIARY ACTIVITIES AND INSURANCE

**Structured entities**

The Banking Group's involvement with structured entities is mainly through securitisations and its funds management activities, which are outlined further below. The Banking Group has involvement with structured entities that may be established either by the Banking Group or by a third party.

**Consolidated structured entities**

*Kingfisher NZ Trust 2008-1 (the Kingfisher Trust)*

The Banking Group has established the Kingfisher Trust as an in-house residential mortgage backed securities facility that can issue securities meeting the RBNZ criteria to use as collateral in repurchase transactions with the RBNZ.

These assets do not qualify for derecognition as the Bank retains substantially all of the risks and rewards of the transferred assets.

As at 30 September 2016 and 30 September 2015 the Banking Group had not entered into any repurchase agreements with the RBNZ for residential mortgage backed securities and therefore no collateral had been accepted by the RBNZ under this facility.

*ANZNZ Covered Bond Trust (the Covered Bond Trust)*

Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied.

The Banking Group continues to recognise the assets of the Covered Bond Trust on its balance sheet as, although they are pledged as security for covered bonds, the Bank retains substantially all the risks and rewards of ownership.

**Unconsolidated securitisations**

The Banking Group also has an interest in unconsolidated securitisation entities through the provision of funding facilities or holding bonds or notes issued by such entities. The Banking Group's exposure to these entities is not material.

**Transferred financial assets**

*Assets transferred to the Kingfisher Trust and the Covered Bond Trust*

The Bank has purchased securities issued by both the Kingfisher Trust and the Covered Bond Trust in exchange for the transfer of the rights to the cash flows associated with the identified residential mortgages. As at 30 September 2016, NZ$19,656 million of assets were held in the Kingfisher Trust and the Covered Bond Trust (2015: NZ$16,071 million).

*Repurchase transactions*

Securities sold subject to repurchase agreements are not derecognised when substantially all the risks and rewards of ownership remain with the Bank. See note 21 for details of securities sold under agreements to repurchase. The amount of trading securities encumbered through repurchase agreements is shown in note 22. The carrying amount of the associated liabilities is not materially different to the amount of trading securities subject to the repurchase agreement.

# NOTES TO THE FINANCIAL STATEMENTS

### Funds management and other fiduciary activities

*Funds management*

Certain subsidiaries of the Bank act as trustee and/or manager for a number of unit trusts and investment and superannuation funds. The Banking Group provides private banking services to a number of clients, including investment advice and portfolio management. The Banking Group is not responsible for any decline in performance of the underlying assets of the investors due to market forces.

As funds under management are not controlled by the Banking Group, they are not included in these financial statements. The Banking Group derives fee and commission income from the sale and management of investment funds and superannuation schemes, unit trusts and the provision of private banking services to customers. The Banking Group derives commission income from the sale of third party funds management products.

Some funds under management are invested in products owned or securities issued by the Banking Group and are recorded as liabilities in the balance sheet. At 30 September 2016, NZ$3,698 million of funds under management were invested in the Banking Group's own products or securities (2015: NZ$3,100 million).

*Custodial services*

The Banking Group provides custodial services to customers in respect of assets that are beneficially owned by those customers.

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| Kiwisaver and other managed funds | 11,219 | 9,147 |
| The Bonus Bonds Trust | 3,561 | 3,277 |
| ANZ PIE Fund[1] | 953 | 794 |
| Discretionary Investment Management Service (DIMS)[2] | 7,007 | 6,020 |
| Other investment portfolios[2] | 3,745 | 3,502 |
| Total funds under management | 26,485 | 22,740 |
| Funds under custodial arrangements | 7,408 | 6,535 |
| Other funds held or managed subject to fiduciary responsibilities | 1,927 | 1,547 |
| Funds management fee income from structured entities | 156 | 137 |

1 The Banking Group established, and is considered to be the sponsor of, the ANZ PIE Fund. The ANZ PIE Fund invests only in deposits with the Bank. The Banking Group does not receive a management fee from, and does not have an interest in, the ANZ PIE Fund.
2 These funds are not structured entities as they are investment portfolios managed on behalf of customers.

*Provision of financial services*

Financial services provided by the Banking Group to entities which are involved in trust, custodial, funds management and other fiduciary activities are provided on arm’s length terms and conditions and at fair value. Any assets purchased from such entities have been purchased on an arm’s length basis and at fair value. The Banking Group does not have any affiliated insurance entities or affiliated insurance groups that are not members of the Banking Group.

Except for standard lending facilities provided in the normal course of business on arm’s length terms, the Banking Group has not provided any funding to entities where trust, custodial, funds management or other fiduciary activities are established, marketed and/or sponsored by a member of the Banking Group (2015: nil).

### Insurance business

The Banking Group conducts insurance business through its subsidiary OnePath Life (NZ) Limited (OnePath Life).

The Banking Group’s aggregate amount of insurance business comprises the total consolidated assets of OnePath Life of NZ$926 million (2015: NZ$884 million), which is 0.6% (2015: 0.6%) of the total consolidated assets of the Banking Group.

### Risk management

The Bank and subsidiaries of the Bank participating in the activities identified above have in place policies and procedures to ensure that those activities are conducted in an appropriate manner. Should adverse conditions arise, it is considered that these policies and procedures will minimise the possibility that these conditions will adversely impact the Bank or the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management.

# NOTES TO THE FINANCIAL STATEMENTS

## 32. RELATED PARTY DISCLOSURES

**Key management personnel**

Key management personnel (KMP) are defined as directors and those executives who report directly to the Bank's Chief Executive Officer with responsibility for the strategic direction and management of a major revenue generating division or who control material revenue and expenses.

Loans made to directors and other KMP are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate.

All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services. All such transactions that have occurred with KMP and their related parties have been trivial or domestic in nature. In this context, transactions are only disclosed when they are considered of interest to the users of the financial statements in making and evaluating decisions about the allocation of scarce resources.

| | Year to 30/09/2016 NZ$000 | Year to 30/09/2015 NZ$000 |
|---|---|---|
| **Key management personnel compensation** | | |
| Salaries and short-term employee benefits | 11,303 | 12,698 |
| Post-employment benefits | 280 | 220 |
| Other long-term benefits | 88 | 77 |
| Termination benefits | 79 | - |
| Share-based payments expense | 4,123 | 5,076 |
| Total compensation of key management personnel | 15,873 | 18,071 |
| Loans to key management personnel | 7,373 | 4,020 |

**Transactions with other related parties**

The Bank and Banking Group undertake transactions with the Immediate Parent Company, the Ultimate Parent Bank, other members of the Overseas Banking Group and associates.

These transactions principally consist of funding and hedging transactions, the provision of other financial and investment services, technology and process support, and compensation for share based payments made to Banking Group employees. Transactions with related parties outside of the Banking Group are conducted on an arm's length basis and on normal commercial terms.

In addition the Bank undertakes similar transactions with subsidiaries, which are eliminated in the consolidated Banking Group financial statements. Included within the Bank's transactions with subsidiaries is the provision of administrative functions to some subsidiaries for which no payments have been made.

**Transactions with related parties**

| | Year to 30/09/2016 NZ$m | Year to 30/09/2015 NZ$m |
|---|---|---|
| **Ultimate Parent Bank and subsidiaries not part of the Banking Group** | | |
| Interest income | 49 | 17 |
| Interest expense | 87 | 62 |
| Fee income | 19 | 23 |
| Gain on sale of mortgages to the NZ Branch | 1 | 1 |
| Other operating income | 19 | 35 |
| Operating expenses | 64 | 64 |
| Mortgages sold to the NZ Branch | 697 | 1,891 |
| **Immediate Parent Company** | | |
| Interest expense | 1 | - |
| Ordinary shares issued | - | 675 |
| **Associates** | | |
| Interest expense | - | 3 |
| Direct fee expense | 10 | 8 |
| Dividends received | 2 | 89 |
| Share of associates' profit | 5 | 5 |

# NOTES TO THE FINANCIAL STATEMENTS

**Balances with related parties**

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| **Ultimate Parent Bank and subsidiaries not part of the Banking Group** | | |
| Cash | 47 | - |
| Settlement balances receivable | 31 | 86 |
| Collateral paid | 375 | - |
| Derivative financial instruments | 4,361 | 4,006 |
| Other assets | 108 | 97 |
| **Immediate Parent Company** | | |
| Derivative financial instruments | - | 2 |
| **Associates** | | |
| Investments in associates | 7 | 4 |
| **Total due from related parties** | 4,929 | 4,195 |
| | | |
| **Ultimate Parent Bank and subsidiaries not part of the Banking Group** | | |
| Settlement balances payable | 323 | 476 |
| Collateral received | - | 688 |
| Deposits and other borrowings | - | 1 |
| Derivative financial instruments | 4,818 | 3,240 |
| Payables and other liabilities | 32 | 17 |
| Subordinated debt | 1,951 | 1,014 |
| **Immediate Parent Company** | | |
| Deposits and other borrowings | 29 | 51 |
| **Associates** | | |
| Payables and other liabilities | 1 | - |
| **Total due to related parties** | 7,154 | 5,487 |

Balances due from / to related parties are unsecured other than that the Banking Group and the Bank have provided guarantees and commitments to related parties as follows:

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| Financial guarantees provided to the Ultimate Parent Bank | 152 | 183 |
| Undrawn credit commitments provided to the Immediate Parent Company | 250 | 250 |

# NOTES TO THE FINANCIAL STATEMENTS

## 33. CAPITAL EXPENDITURE AND OPERATING LEASE COMMITMENTS

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| **Contracts for outstanding capital expenditure** | | |
| Not later than 1 year | 5 | 12 |
| **Future minimum lease payments under non-cancellable operating leases** | | |
| Not later than 1 year | 87 | 47 |
| Later than 1 year but not later than 5 years | 217 | 258 |
| Later than 5 years | 151 | 197 |
| Total operating lease commitments | 455 | 502 |
| Total commitments | 460 | 514 |

## 34. COMPENSATION OF AUDITORS

| | Year to 30/09/2016 NZ$000 | Year to 30/09/2015 NZ$000 |
|---|---|---|
| **Compensation of auditors (KPMG New Zealand)** | | |
| Audit or review of financial statements[1] | 2,219 | 2,165 |
| Other services:[2] | | |
| Prudential and regulatory services[3] | 262 | 119 |
| Offer documents assurance or review | 100 | 155 |
| Other assurance services[4] | 67 | 126 |
| Total other services | 429 | 400 |
| Total compensation of auditors relating to the Banking Group | 2,648 | 2,565 |
| | | |
| Fees paid on behalf of certain managed funds and not recharged[2,5] | 33 | 35 |
| Total compensation of auditors | 2,681 | 2,600 |

1 Includes fees for both the audit of the annual financial statements and reviews of interim financial statements.
2 Comparative amounts have been updated to conform with current period classification, and to exclude NZ$68,000 of fees that were recharged to managed funds.
3 Includes fees for reviews and controls reports required by regulations.
4 Includes fees for controls reports, comfort letters and other agreed upon procedures engagements.
5 Amounts relate to the ANZ PIE Fund and certain other funds, and include fees for audits of annual financial statements and audits of summary financial statements for inclusion in offer documents, comfort letters and other agreed upon procedures engagements.

It is the Banking Group's policy that, subject to the approval of the Ultimate Parent Bank's Audit Committee, KPMG can provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor. KPMG may not provide services that are perceived to be in conflict with the role of auditor. Services that are perceived to be in conflict with the role of auditor include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on its own work.

# NOTES TO THE FINANCIAL STATEMENTS

## 35. CONCENTRATIONS OF CREDIT RISK TO INDIVIDUAL COUNTERPARTIES

The Banking Group measures its concentration of credit risk using actual exposures for bank counterparties and limits for non bank counterparties. No account is taken of collateral, security and/or netting agreements which the Banking Group may hold in respect of the various counterparty exposures.

For the three months ended 30 September 2016 there were no individual counterparties (excluding connected parties, governments and banks with long term credit ratings of A- or above) where the Banking Group's period end or peak end-of-day credit exposure equalled or exceeded 10% of equity (as at the end of the period).

**Concentrations of credit risk to connected persons**

Credit exposures to connected persons reported in the table below have been calculated partially on a bilateral net basis and partially on a gross basis. Netting has occurred (up to a limit of 125% of the Banking Group's tier 1 capital) in respect of certain transactions which are the subject of a bilateral netting agreement.

This information has been derived in accordance with the Bank's conditions of registration, the RBNZ document *Connected Exposures Policy* (BS8). The exposures are net of individual credit impairment allowances and exclude advances to connected persons of a capital nature.

| | 30/09/2016 | | 30/09/2015 | |
|---|---|---|---|---|
| | Amount NZ$m | % of Tier 1 Capital | Amount NZ$m | % of Tier 1 Capital |
| **Aggregate at end of year**[1] | | | | |
| Bank connected persons (on gross basis, before netting) | 9,349 | 81.3% | 7,907 | 76.9% |
| Less: amount netted off | 7,619 | 66.2% | 5,205 | 50.6% |
| Bank connected persons (on partial bilateral net basis) | 1,730 | 15.1% | 2,702 | 26.3% |
| Non-bank connected persons[2] | 1 | 0.0% | 1 | 0.0% |
| **Peak end-of-day for the year**[3] | | | | |
| Bank connected persons (on gross basis, before netting) | 9,352 | 86.4% | 8,491 | 89.6% |
| Less: amount netted off | 5,353 | 49.5% | 5,334 | 56.3% |
| Bank connected persons (on partial bilateral net basis) | 3,999 | 36.9% | 3,157 | 33.3% |
| Non-bank connected persons[2] | 4 | 0.0% | 3 | 0.0% |
| **Rating-contingent limit**[4] | | | | |
| Bank connected persons (on a gross basis, before netting) | n/a | 125.0% | n/a | 125.0% |
| Bank connected persons (on partial bilateral net basis) | n/a | 70.0% | n/a | 70.0% |
| Non-bank connected persons | n/a | 15.0% | n/a | 15.0% |

1 The Banking Group has amounts due from the Immediate Parent Company and the Ultimate Parent Bank and other entities within the Overseas Banking Group arising in the ordinary course of business. These balances arise primarily from unrealised gains on trading and hedging derivative financial instruments with the Ultimate Parent Bank. As at 30 September 2016, the gross exposures to the Immediate Parent Company were NZ$3 million (2015: NZ$5 million). As at 30 September 2016, the gross exposures to the Ultimate Parent Bank were NZ$9,346 million (2015: NZ$7,902 million).

2 Non-bank connected persons exposures comprise loans to directors of the Bank and their related parties.

3 The Banking Group has complied with the limits on aggregate credit exposure (of a non-capital nature and net of individual provisions) to connected persons and non-bank connected persons, as set out in the Conditions of Registration, at all times during the year. The peak end-of-day credit exposure ratios for the year to connected persons are measured over Tier 1 Capital as at the beginning of the month in which the peak aggregate amount of credit exposure occurred. Previously Tier 1 Capital as at the end of the year was used to calculate the peak ratios, and comparative ratios have been updated.

4 Represents the maximum peak end-of-day aggregate credit exposures limit (of a non-capital nature and net of individual provisions) to all connected persons. This limit is based on the ratings applicable to the Bank's long term senior unsecured obligations payable in New Zealand in New Zealand dollars. Within the overall limit a sub-limit of 15% of Tier 1 Capital applies to aggregate credit exposures (exclusive of exposures of a capital nature and net of individual provisions) to non-bank connected persons. There have been no changes to these limits for the year ended 30 September 2016.

# NOTES TO THE FINANCIAL STATEMENTS

## 36. RISK MANAGEMENT FRAMEWORK

The Banking Group recognises the importance of effective risk management to its business success. Management is committed to achieving strong control and a distinctive risk management capability that enables the Banking Group business units to meet their performance objectives.

The Banking Group approaches risk through managing the various elements of the system as a whole rather than viewing them as independent and unrelated parts. The risk management division (Risk Management) is independent of the business, with clear delegations from the Board, and operates within a comprehensive framework comprising:

- The Board providing leadership, setting risk appetite/strategy and monitoring progress
- A strong framework for development and maintenance of Banking Group-wide risk management policies, procedures and systems, overseen by an independent team of risk professionals
- The use of sophisticated risk tools, applications and processes to execute the global risk management strategy across the Banking Group
- Business unit level accountability, as the "first line of defence", for the management of risks in alignment with the Banking Group's strategy
- Independent oversight to ensure business unit level compliance with policies, regulations and laws, and to provide regular risk evaluation and reporting.

The Banking Group manages risk through an approval, delegation and limits structure. Regular reviews of the policies, systems and risk reports, including the effectiveness of the risk management systems, discussions covering the Banking Group's response to emerging risk issues and trends, and that the requisite culture and practices are in place across the Banking Group, are conducted within the Banking Group and also by the Ultimate Parent Bank. The Board has responsibility for reviewing all aspects of risk management.

The Board has ultimate responsibility for overseeing the effective deployment of risk management frameworks, policies and processes within New Zealand. The Bank's Risk Committee assists the Board in this function. The role of the Risk Committee is to assist the Board in the effective discharge of its responsibilities for business, market, credit, operational, compliance, liquidity, product and reputational risk management, and to liaise and consult with the Ultimate Parent Bank Risk Committee as required. Risk Management, via the Chief Risk Officer, coordinates risk management activities directly between Business Unit risk functions and Ultimate Parent Bank Group Risk Management functions.

The risk management process is subject to oversight by the Risk Committee of the Ultimate Parent Bank Board. This includes the review of risk portfolios and the establishment of prudential policies and controls.

The Banking Group's risk management policies are essentially the same as the Ultimate Parent Bank, but are tailored where required to suit the local New Zealand regulatory and business environment.

The Audit Committee has responsibility for ensuring the integrity of the Banking Group's financial controls, reporting systems and internal audit standards. It meets at least four times a year and reports directly to the Board. All members of the Audit Committee are non-executive directors.

### Financial risk management

Refer to note 18 for detailed disclosures on the Banking Group's financial risk management policies.

### Operational Risk

Operational risk is the risk arising from day to day operational activities which may result in direct or indirect loss. These losses may result from failure to comply with policies, procedures, laws and regulations, from fraud or forgery, from a breakdown in the availability or integrity of services, systems and information, or damage to the Banking Group's reputation.

Examples include failure to comply with policy and legislation, human error, natural disasters, fraud and other malicious acts. Where appropriate, risks are mitigated by insurance.

Risk Management is responsible for establishing the Banking Group's operational risk framework and associated Banking Group-wide policies. Business units are responsible for the identification, analysis, assessment and treatment of operational risks on a day-to-day basis.

Business units have primary responsibility for the identification and management of operational risk with executive oversight provided through business unit Risk Forums. The Bank's Operational Risk Executive Committee (OREC) undertakes the governance function through the bi-monthly monitoring of operational risk performance across the Banking Group. The Board and Risk Management conduct effective oversight through the approval of operational risk policies and frameworks and monitoring key operational risk metrics.

### Compliance

The Banking Group conducts its business in accordance with all relevant compliance requirements. In order to assist the Banking Group identify, manage, monitor and measure its compliance obligations, the Banking Group has a comprehensive compliance framework in place, which addresses both external (regulatory) and internal compliance.

Risk Management, in conjunction with business unit staff ensure the Banking Group operates within a compliance infrastructure and framework that incorporates new and changing business obligations and processes.

The compliance policies and their supporting framework seek to minimise material risks to the Banking Group's reputation and value that could arise from non-compliance with laws, regulations, industry codes and internal standards and policies. Business units have primary responsibility for the identification and management of compliance. Risk Management provides policy and framework, measurement, monitoring and reporting, as well as leadership in areas such as anti-money laundering procedures and matters of prudential compliance. The Bank's OREC, the Chief Risk Officer, the Board and the Risk Committee of the Ultimate Parent Bank Board conduct board and executive oversight.

### Internal Audit

Internal Audit is a function independent of management whose role is to provide the Board and management with an effective and independent appraisal of the internal controls established by management. Operating under a Board approved Charter,

# NOTES TO THE FINANCIAL STATEMENTS

the reporting line for the outcomes of work conducted by Internal Audit is direct to the Chair of the Audit Committee, with a direct communication line to the Chief Executive Officer and the external auditor.

The Internal Audit Plan is developed utilising a risk based approach and is refreshed on a quarterly basis. The Audit Committee approves the plan, the associated budget and any changes.

All audit activities are conducted in accordance with local and international auditing standards, and the results of the activities are reported to the Audit Committee, Risk Committee and management. These results influence the performance assessment of business heads.

Furthermore, Internal Audit monitors the remediation of audit issues and highlights the current status of any outstanding audits.

# HISTORICAL SUMMARY OF FINANCIAL STATEMENTS

| | Year to 30/09/2016 NZ$m | Year to 30/09/2015 NZ$m | Year to 30/09/2014 NZ$m | Year to 30/09/2013 NZ$m | Year to 30/09/2012 NZ$m |
|---|---|---|---|---|---|
| Interest income | 6,423 | 6,926 | 6,272 | 5,957 | 6,017 |
| Interest expense | 3,421 | 4,051 | 3,529 | 3,344 | 3,335 |
| Net interest income | 3,002 | 2,875 | 2,743 | 2,613 | 2,682 |
| Non-interest income | 852 | 1,175 | 1,085 | 823 | 1,006 |
| Operating income | 3,854 | 4,050 | 3,828 | 3,436 | 3,688 |
| Operating expenses | 1,599 | 1,512 | 1,489 | 1,512 | 1,742 |
| Credit impairment charge / (release) | 150 | 74 | (16) | 63 | 193 |
| **Profit before income tax** | 2,105 | 2,464 | 2,355 | 1,861 | 1,753 |
| Income tax expense | 570 | 681 | 639 | 490 | 428 |
| **Profit after income tax** | 1,535 | 1,783 | 1,716 | 1,371 | 1,325 |
| | | | | | |
| Dividends paid | (1,363) | (1,760) | (2,353) | (1,065) | (1,150) |
| Share capital issued | - | 675 | 970 | 300 | - |

| | As at 30/09/2016 NZ$m | As at 30/09/2015 NZ$m | As at 30/09/2014 NZ$m | As at 30/09/2013 NZ$m | As at 30/09/2012 NZ$m |
|---|---|---|---|---|---|
| Total impaired assets | 426 | 382 | 634 | 901 | 1,366 |
| Total assets | 160,819 | 147,527 | 128,915 | 120,444 | 121,564 |
| Total liabilities | 148,109 | 135,074 | 117,134 | 108,990 | 110,653 |
| Equity | 12,710 | 12,453 | 11,781 | 11,454 | 10,911 |

The amounts included in this summary have been taken from the audited financial statements of the Banking Group.

# GENERAL DISCLOSURES

## General Matters

The Disclosure Statement has been issued in accordance with the Order.

The Bank is incorporated under the Companies Act 1993. The Bank is wholly owned by its Immediate Parent Company and ultimately by the Ultimate Parent Bank. The Immediate Parent Company of the Bank is incorporated in New Zealand and owned by ANZ Funds Pty Limited and the Ultimate Parent Bank (both incorporated in Australia). The address for service for the Ultimate Parent Bank is ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

The Immediate Parent Company has the power under the Bank's Constitution to appoint any person as a Director of the Bank either to fill a casual vacancy or as an additional Director or to remove any person from the office of Director, from time to time by giving written notice to the Bank. No appointment of a new Director may occur unless the RBNZ confirms that it does not object to the appointment.

## Material Financial Support

In accordance with requirements issued by APRA pursuant to its Prudential Standards, the Ultimate Parent Bank may not provide material financial support to the Bank contrary to the following:

- the Ultimate Parent Bank should not undertake any third party dealings with the prime purpose of supporting the business of the Bank
- the Ultimate Parent Bank should not hold unlimited exposures (should be limited as to specified time and amount) in the Bank (e.g. not provide a general guarantee covering any of the Bank's obligations)
- the Ultimate Parent Bank should not enter into cross default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default of the Ultimate Parent Bank in its obligations
- the Board of the Ultimate Parent Bank in determining limits on acceptable levels of exposure to the Bank should have regard to:
    - the level of exposure that would be approved to third parties of broadly equivalent credit status. In this regard, prior consultation (and in some cases approval) is required before entering exceptionally large exposures
    - the impact on the Ultimate Parent Bank's capital and liquidity position and its ability to continue operating in the event of a failure by the Bank
- the level of exposure to the Bank not exceeding:
    - 50% on an individual exposure basis
    - 150% in aggregate (being exposures to all similar regulated entities related to the Ultimate Parent Bank)

  of the Ultimate Parent Bank's capital base.

Additionally, the Ultimate Parent Bank may not provide material financial support in breach of the Australian Banking Act (1959). This requires APRA to exercise its powers and functions for the protection of a bank's depositors and in the event of a bank becoming unable to meet its obligations or suspending payment, the assets of the bank in Australia shall be available to meet that bank's deposit liabilities in Australia in priority to all other liabilities of the bank.

The Ultimate Parent Bank has not provided material financial support to the Bank contrary to any of the above requirements.

## Guarantors

No material obligations of the Bank are guaranteed as at 18 November 2016.

### ANZNZ Covered Bond Trust

Certain debt securities (Covered Bonds) issued by the Bank's wholly owned subsidiary, ANZ New Zealand (Int'l) Limited, are guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor has guaranteed the payment of interest and principal of Covered Bonds with a carrying value as at 30 September 2016 of NZ$6,218 million, pursuant to a guarantee which is secured over a pool of assets. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations payable in New Zealand dollars. The Covered Bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Details of the pool of assets that secure this guarantee are provided in note 31.

## Other Matters

APRA has reviewed the level of exposures that can be provided to the respective New Zealand banking subsidiaries and branches (New Zealand operations) of the four Australian parent banks, including the Ultimate Parent Bank.

APRA has confirmed that by 1 January 2021 no more than 5% of the Ultimate Parent Bank's Level 1 Tier 1 capital can comprise non-equity exposures to its New Zealand operations during ordinary times. Exposures in excess of this limit must be reduced in equal percentages over the five year transition period and may not increase above the exposures as at 30 June 2015. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to the Bank during times of financial stress.

The Ultimate Parent Bank established a New Zealand branch which was registered on 5 January 2009. The Bank sells, from time-to-time, residential loans and mortgages into the NZ Branch to provide funding for the Bank's business. As at 30 September 2016, the NZ Branch held approximately NZ$6.0 billion of residential loans. To satisfy APRA's requirements described above, the Bank intends to repay this funding at approximately NZ$1.6 billion per annum over the five year transition period ending 31 December 2020.

APRA has also clarified that contingent funding support by the Ultimate Parent Bank to the Bank during times of financial stress must be provided on terms that are acceptable to APRA and, in aggregate with all other exposures to its New Zealand operations, must not exceed 50% of the Ultimate Parent Bank's Level 1 Tier 1 capital. At present, only covered bonds meet APRA's criteria for contingent funding. On this basis, we believe that the Ultimate Parent Bank will continue to be able to provide financial support to the Bank.

# GENERAL DISCLOSURES

## Credit Rating Information

As at 18 November 2016 the Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars. On 7 July 2016, Standard & Poor's changed the outlook on the Bank from Stable to Negative. On 18 August 2016, Moody's Investors Service changed the outlook on the Bank from Stable to Negative.

The Bank's credit ratings are:

| Rating Agency | Current Credit Rating | Qualification |
|---|---|---|
| Standard & Poor's | AA- | Outlook Negative |
| Moody's Investors Service | Aa3 | Outlook Negative |
| Fitch Ratings | AA- | Outlook Stable |

The following table describes the credit rating grades available:

| | Standard & Poor's | Moody's Investors Service | Fitch Ratings |
|---|---|---|---|
| **The following grades display investment grade characteristics:** | | | |
| Ability to repay principal and interest is extremely strong. This is the highest investment category. | AAA | Aaa | AAA |
| Very strong ability to repay principal and interest. | AA | Aa | AA |
| Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions. | A | A | A |
| Adequate ability to repay principal and interest. More vulnerable to adverse changes. | BBB | Baa | BBB |
| **The following grades have predominantly speculative characteristics:** | | | |
| Significant uncertainties exist which could affect the payment of principal and interest on a timely basis. | BB | Ba | BB |
| Greater vulnerability and therefore greater likelihood of default. | B | B | B |
| Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions. | CCC | Caa | CCC |
| Highest risk of default. | CC to C | Ca to C | CC to C |
| Obligations currently in default. | D | - | RD & D |

Credit ratings from Standard & Poor's and Fitch Ratings may be modified by the addition of "+" or "-" to show the relative standing within the "AA" to "B" categories. Moody's Investors Service applies numerical modifiers 1, 2, and 3 to each of the "Aa" to "Caa" classifications, with 1 indicating the higher end and 3 the lower end of the rating category.

# CONDITIONS OF REGISTRATION

**Conditions of Registration, applicable as at 30 September 2016. These Conditions of Registration have applied from 1 November 2015.**

The registration of ANZ Bank New Zealand Limited ("the bank") as a registered bank is subject to the following conditions:

1. That-

   (a) the Total capital ratio of the banking group is not less than 8%;

   (b) the Tier 1 capital ratio of the banking group is not less than 6%;

   (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;

   (d) the Total capital of the banking group is not less than $30 million; and

   (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and

   (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document: "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

   For the purposes of this condition of registration,-

   the scalar referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06.

   "Total capital ratio", "Tier 1 capital ratio", "Common Equity Tier 1 capital ratio", and "Total capital" must be calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015.

   an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015.

   a Tier 2 capital instrument is an instrument that meets the requirements of subsection 2.16(a) or (c) of the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015.

1A. That-

   (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ('ICAAP')" (BS12) dated December 2007;

   (b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015; and

   (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the banking group complies with all requirements set out in the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015.

1C. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:

   (a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

| Banking group's buffer ratio | Percentage limit to distributions of the bank's earnings |
|---|---|
| 0% - 0.625% | 0% |
| >0.625 - 1.25% | 20% |
| >1.25 - 1.875% | 40% |
| >1.875% - 2.5% | 60% |

   (b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and

   (c) have the capital plan approved by the Reserve Bank.

   For the purposes of this condition of registration, —

   "buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

   the scalar referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

   In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

   For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

   (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

   (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus

# CONDITIONS OF REGISTRATION

the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the banking group's insurance business-

(a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,-

"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:

"insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

| Credit Rating of the bank[1] | Connected exposure limit (% of the banking group's Tier 1 capital) |
|---|---|
| AA/Aa2 and above | 75 |
| AA-/Aa3 | 70 |
| A+/A1 | 60 |
| A/A2 | 40 |
| A-/A3 | 30 |
| BBB+/Baa1 and below | 15 |

[1] This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's)

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15 percent of the banking group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated November 2015.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the bank complies with the following corporate governance requirements:

(a) the board of the bank must have at least five directors;

(b) the majority of the board members must be non-executive directors;

(c) at least half of the board members must be independent directors;

(d) an alternate director,—

(i) for a non-executive director must be non-executive; and

(ii) for an independent director must be independent;

(e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;

(f) the chairperson of the board of the bank must be independent; and

(g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports 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;

# CONDITIONS OF REGISTRATION

(b) that the bank's financial risk positions on a day can be identified on that day;

(c) that the bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and

(d) that the bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

For the purposes of this condition of registration, the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006.

12. That:

(a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;

(b) the employment contract of the chief executive officer of the bank or person in an equivalent position (together "CEO") is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decision relating to the employment or termination of employment of the CEO are made by, the board of the bank; and

(c) all staff employed by the bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and be accountable (directly or indirectly) to the CEO of the bank.

13. That the banking group complies with the following quantitative requirements for liquidity-risk management:

(a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;

(b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and

(c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated July 2014 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

14. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:

(a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

(b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

(c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and

(d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

15. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purposes of this condition, —

"total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets:

"SPV" means a person—

(a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;

(b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and

(c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

"covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

16. That—

(a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:

(i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

(b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

(i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

(iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

17. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—

# CONDITIONS OF REGISTRATION

(a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—

(i) all liabilities are frozen in full; and

(ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;

(b) apply a *de minimis* to relevant customer liability accounts;

(c) apply a partial freeze to the customer liability account balances;

(d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;

(e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and

(f) reinstate customers' access to some or all of their residual frozen funds.

For the purposes of this condition of registration, "*de minimis*", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

18. That the bank has an Implementation Plan that—

(a) is up-to-date; and

(b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS17) dated September 2013.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

19. That the bank has a compendium of liabilities that—

(a) at the product-class level lists all liabilities, indicating which are—

(i) pre-positioned for Open Bank Resolution; and

(ii) not pre-positioned for Open Bank Resolution;

(b) is agreed to by the Reserve Bank; and

(c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

For the purposes of this condition of registration, "compendium of liabilities" and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

20. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

21. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of APIL with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of APIL arising in the loan-to-valuation measurement period.

22. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of ANPIL with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of ANPIL arising in the loan-to-valuation measurement period.

23. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non-Auckland loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non-Auckland loans arising in the loan-to-valuation measurement period.

24. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,—

"banking group" means ANZ Bank New Zealand Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 21 to 24, —

"ANPIL", "APIL", "loan-to-valuation ratio", "non-Auckland loan", "qualifying new mortgage lending amount in respect of [...]" and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated November 2015:

"loan-to-valuation measurement period" means—

(a) the six calendar month period ending on the last day of April 2016; and

(b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of May 2016.

# DIRECTORATE AND AUDITOR

Any document or communication may be sent to any Director at the Registered Office. The document or communication should be marked for the attention of that Director.

### Directors' interests

In order to ensure that members of the Board are reminded of their disclosure obligations under the Companies Act 1993, the following procedures are adopted:

- At least once in each year, Directors are requested to complete, in terms of section 140(1) of the Companies Act 1993, a disclosure of any interests which they have with the Bank itself. Directors are reminded at this time of their obligation under the Companies Act 1993 to disclose promptly any transaction or proposed transaction with the Bank in which they have an interest.
- Directors are also requested to make a general disclosure of their interest in other entities in terms of section 140(2) of the Companies Act 1993. In addition, they are requested to initiate a review of that disclosure if there are any significant alterations which occur subsequently during the period.

In addition to the written disclosures referred to above, Directors disclose relevant interests which they have before discussion of particular business items.

The Companies Act 1993 allows a Director with an interest in a transaction to participate in discussions and to vote on all matters relating to that particular transaction. However, the Board has adopted a guideline whereby a Director with an interest in a transaction should not be present during any discussions, and should not vote, on any matter pertaining to that particular transaction.

### Transactions with Directors

No Director has disclosed that he/she or any immediate relative or professional associate has any dealing with the Banking Group which has been either entered into on terms other than those which would in the ordinary course of business be given to any other person of like circumstances or means or which could otherwise be reasonably likely to influence materially the exercise of the Director's duties as a Director of the Bank.

## Board Members as at 18 November 2016

### Independent Non-Executive Director and Chair

**John Frederick Judge**
B Com, FCA
Company Director
Auckland, New Zealand

Mr Judge is a member of the Audit Committee, the Human Resources Committee and the Risk Committee.

***Other directorships:*** Aquatx Holdings Limited, Biotelliga Limited, Biotelliga Holdings Limited, Biotelliga Nominees Limited, Endogen Limited, Fletcher Building Limited, Fletcher Building Industries Limited, Janohn Limited, Sebca Limited, John Judge Limited, Cup Limited, Sails Friday Limited, The New Zealand Initiative Limited, Hydraulink Fluid Connectors Limited, Analog Digital Instruments Limited, Hydraulink Australia Pty Limited, ADInstruments Pty Limited

### Executive Director

**David Duncan Hisco**
B Bus, MBA
Chief Executive, ANZ Bank New Zealand Limited
Auckland, New Zealand

***Other directorships:*** ANZ Holdings (New Zealand) Limited

### Non-Executive Directors

**Shayne Cary Elliott**
B Com
Chief Executive Officer, Australia and New Zealand Banking Group Limited
Melbourne, Australia

Mr Elliott is a member of the Human Resources Committee.

***Other directorships:*** ANZ Holdings (New Zealand) Limited, Australia and New Zealand Banking Group Limited and the Financial Markets Foundation for Children

**Nigel Henry Murray Williams**
BCom
Chief Risk Officer, Australia and New Zealand Banking Group Limited
Melbourne, Australia

***Other directorships:*** Shanghai Rural Commercial Bank Co. Limited

Mr Williams is a member of the Risk Committee and Audit Committee.

# DIRECTORATE AND AUDITOR

### Independent Non-Executive Directors

**Antony John Carter**
BE (Hons), ME, FNZIM
Company Director
Auckland, New Zealand

Mr Carter is the Chair of the Risk Committee and a member of the Audit Committee and the Human Resources Committee.

***Other directorships:*** Air New Zealand Limited, Avonhead Mall Limited, Blues Management Limited, Fletcher Building Limited, Fisher & Paykel Healthcare Corporation Limited, Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited, Fletcher Building Industries Limited, Loughborough Investments Limited, Modern Merchants Limited, Strategic Interchange Limited, Tetrad Corporation Limited, Capital Training Limited

**Mark John Verbiest**
LLB, CFInstD
Company Director
Wanaka, New Zealand

Mr Verbiest is the Chair of the Audit Committee and a member of the Human Resources Committee and the Risk Committee.

***Other directorships:*** Bear Fund NZ Limited, Freightways Limited, Spark New Zealand Limited, Willis Bond Capital Partners Limited, Willis Bond General Partner Limited, MyCare Limited, The Treasury

**Joan Withers**

MBA, AFInstD
Company Director
Auckland, New Zealand

Ms Withers is the Chair of the Human Resources Committee and a member of the Risk Committee and the Audit Committee.

***Other directorships:*** Mercury NZ Limited, Television New Zealand Limited, The Warehouse Group Limited, TVNZ International Limited, TVNZ Investments Limited, Freeview Television Limited, NZOOM Limited

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## Auditor

**KPMG**

Chartered Accountants
10 Customhouse Quay
P O Box 996
Wellington, New Zealand

# DIRECTORS' STATEMENT

As at the date on which this Disclosure Statement is signed, after due enquiry, each Director believes that:

- The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014
- The Disclosure Statement is not false or misleading.

Over the year ended 30 September 2016, after due enquiry, each Director believes that:

- ANZ Bank New Zealand Limited has complied with all Conditions of Registration that applied during that period
- Credit exposures to connected persons were not contrary to the interests of the Banking Group
- ANZ Bank New Zealand Limited had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

**This Disclosure Statement is dated, and has been signed by all Directors of the Bank on, 18 November 2016.**

**Antony Carter**

**Shayne Elliott**

**David Hisco**

**John Judge**

**Mark Verbiest**

**Nigel Williams**

**Joan Withers**

# INDEPENDENT AUDITOR'S REPORT

## To the Shareholder of ANZ Bank New Zealand Limited

### Report on the Banking Group Disclosure Statement

We have audited the accompanying financial statements and supplementary information of ANZ Bank New Zealand Limited ("the Bank") and its subsidiaries ("Banking Group") on pages 3 to 66 of the Disclosure Statement. The financial statements comprise the balance sheet as at 30 September 2016, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information of the Banking Group. The supplementary information comprises the information that is required to be disclosed in accordance with Schedules 2, 4, 7, 11, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order).

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder of the Bank those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder of the Bank as a body, for our audit work, this report or any of the opinions we have formed.

***Directors' responsibility for the disclosure statement***

The Directors are responsible on behalf of the Banking Group for the preparation of the Banking Group Disclosure Statement, including financial statements prepared in accordance with Clause 24 of the Order, generally accepted accounting practice in New Zealand, that is a fair presentation of the matters to which they relate. The Directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the Banking Group financial statements that are free from material misstatement whether due to fraud or error.

The directors are responsible for the preparation and fair presentation of supplementary information, in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order.

***Auditor's responsibility***

Our responsibility is to express an opinion on the Disclosure Statement, including the financial statements prepared in accordance with Clause 24 of the Order and the supplementary information (excluding the supplementary information related to CapitalAdequacy) disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Banking Group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Banking Group financial statements (excluding the supplementary information relating to Capital Adequacy). The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Banking Group's preparation of the financial statements that present fairly the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banking Group's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion on the Disclosure Statement***

In our opinion the Disclosure Statement of the Banking Group on pages 3 to 66 (excluding supplementary information):

- complies with generally accepted accounting practice in New Zealand
- complies with International Financial Reporting Standards
- give a true and fair view of the financial position of the Banking Group as at 30 September 2016 and of the financial performance and cash flows of the Banking Group for the year ended on that date.

***Opinion on supplementary information***

In our opinion, the supplementary information (excluding supplementary information relating to Capital Adequacy) that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order:

- has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration
- is in accordance with the books and records of the Banking Group in all material respects
- fairly states the matters to which it relates in accordance with those Schedules.

KPMG

**Report on supplementary information relating to Capital Adequacy**

We have reviewed the supplementary information relating to Capital Adequacy information, as disclosed in note 29 of the Disclosure Statement for the year ended 30 September 2016.

***Directors' responsibility for the supplementary information relating to Capital Adequacy***

The Directors are responsible for the preparation of supplementary information relating to Capital Adequacy that is required to be disclosed under Schedule 11 of the Order and prepared in accordance with the Capital Adequacy Framework (internal models based approach) (BS2B) and described in note 29 of the Disclosure Statement.

***Auditor's responsibility***

Our responsibility is to express an opinion on the supplementary information relating to Capital Adequacy based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* issued by the New Zealand External Reporting Board. As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements and plan and perform the review to obtain limited assurance about whether the supplementary information relating to Capital Adequacy information is, in all material respects:

- prepared in accordance with the Bank's conditions of registration
- prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand
- disclosed in accordance with Schedule 11 of the Order.

A review is limited primarily to enquiries of the Banking Group personnel and analytical review procedures applied to the financial data, and thus provides less assurance than an audit. We have not performed an audit in respect of the Capital Adequacy disclosures, and accordingly, we do not express an audit opinion on these disclosures.

A review of the Capital Adequacy information in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the supplementary information relating to capital adequacy disclosures.

***Review opinion on the supplementary information relating to Capital Adequacy***

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy, and disclosed in note 29 of the Disclosure Statement, is not, in all material respects:

- prepared in accordance with the Bank's conditions of registration
- prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand
- disclosed in accordance with Schedule 11 of the Order.

***Review on other legal and regulatory requirements***

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations we have required
- in our opinion, proper accounting records have been kept by the Banking Group, as far as appears from our examination of those records.

***Independence***

Our firm has provided other services to the Banking Group in relation to review of regulatory returns, internal controls reports, prospectus assurance or reviews and agreed upon procedures engagements. Subject to certain restrictions partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. There are, however, certain restrictions on dealings which the partners and employees of our firm can have with the Banking Group. These matters have not impaired our independence as auditors of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

KPMG

Wellington
18 November 2016

anz.co.nz

# Annex A-1-ANZNIL Financial Statements

Contents

# ANZ NEW ZEALAND (INT'L) LIMITED
# ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2017

# MANAGEMENT REPORT
## FOR THE YEAR ENDED 30 SEPTEMBER 2017

### Nature of Business

ANZ New Zealand (Int'l) Limited (the Company) is incorporated in New Zealand under the Companies Act 1993. Its registered office is, Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, 1010, New Zealand. The ultimate parent company is Australia and New Zealand Banking Group Limited (the Ultimate Parent), which is incorporated in Victoria, Australia.

The Company provides funding facilities and wholesale funding to its parent company, ANZ Bank New Zealand Limited (the Parent Company) including the issuance of U.S. Commercial Paper, Euro-Commercial Paper, U.S. Medium-Term Notes, Euro Medium-Term Notes and Covered Bonds. The Company's overseas activities are currently conducted through its London branch. The Company has no subsidiaries.

There have not been any material changes in the nature of the Company's business during the year.

### Business Review

The movement in the Company's total assets from $21,317 million as at 30 September 2016 to $21,263 million as at 30 September 2017 has been driven primarily by a decreased funding requirement from the Parent Company.

The movement in funding includes:

| NZ$m | Debt Issuances | Commercial Paper | Total |
|---|---|---|---|
| Issuances | 4,097 | 8,040 | 12,137 |
| Maturities | (2,964) | (9,698) | (12,662) |
| Net issuances | 1,133 | (1,658) | (525) |
| Foreign exchange revaluation | 476 | 19 | 495 |
| Movement | 1,609 | (1,639) | (30) |

Net interest income was $7 million for the year to 30 September 2017 (2016: $6 million).

### Principal Risks and Uncertainties

The Company expects minimal change to principal risks and uncertainties over the next year.

The Company's exposure to risk arises from the Company's operations as a financial intermediary and participant in the financial markets. All aspects of risk are managed within a framework of policies, limits, control procedures, systems and reporting, and risk exposures are independently monitored and controlled within predefined limits, with an internal reporting framework in place.

The Company carries minimal interest rate, liquidity and currency risk reflecting the Company's role as a financial intermediary. The Company's principal credit risk exposure continues to be to the Parent Company. Operational risk is managed through a comprehensive infrastructure of effective policies, procedures, businesses systems and compliance.

### Other Information

- No important events have occurred since the end of the financial year.
- No significant changes are planned to the future operations of the Company.
- The Company is not involved in research and development.
- The Company has not acquired any of its own shares.
- The Company only operates through its London branch.

### Directors

Antonia Watson has taken up the position of Managing Director Retail and Business Banking with the Parent Company and resigned as a Director of the Company on 17 February 2017. Stewart Taylor was appointed as a Director of the Company on 17 February 2017.

There have been no other changes to the Directors of the Company since 30 September 2016.

### Responsibility Statement

As at the date on which this Responsibility Statement is signed, after due enquiry and to the best of their knowledge, the Directors confirm that:

(a) the financial statements, prepared in accordance with New Zealand Generally Accepted Accounting Practice and International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

(b) the management report of the Company includes a fair review of the development and performance of the business and the position of the Company and the principal risks and uncertainties that it faces.

For and on behalf of the Board of Directors:

Anthony Bradshaw
Director
15 November 2017

Stewart Taylor
Director
15 November 2017

# STATEMENT OF COMPREHENSIVE INCOME

| | Note | Year to 30/09/2017 NZ$m | Year to 30/09/2016 NZ$m |
|---|---|---|---|
| Interest income | 6 | 315 | 281 |
| Interest expense | 2 | 308 | 275 |
| **Profit before income tax** | | 7 | 6 |
| Income tax expense | 3 | 2 | 2 |
| **Profit after income tax** | | 5 | 4 |

There are no items of other comprehensive income.

# BALANCE SHEET

| | Note | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|---|
| **Assets** | | | |
| Due from the Parent Company | 6 | 21,263 | 21,317 |
| **Total assets** | | 21,263 | 21,317 |
| **Liabilities** | | | |
| Accrued interest payable | | 36 | 60 |
| Commercial paper | 4 | 3,719 | 5,358 |
| Current tax liabilities | | 1 | 1 |
| Debt issuances | 5 | 17,502 | 15,893 |
| **Total liabilities** | | 21,258 | 21,312 |
| **Net assets** | | 5 | 5 |
| **Equity** | | | |
| Retained profits | | 5 | 5 |
| **Total equity** | 8 | 5 | 5 |

For and on behalf of the Board of Directors:

Anthony Bradshaw
Director
15 November 2017

Stewart Taylor
Director
15 November 2017

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

# CASH FLOW STATEMENT

| | Year to 30/09/2017 NZ$m | Year to 30/09/2016 NZ$m |
|---|---|---|
| Cash flows from operating activities | | |
| Interest received | 339 | 312 |
| Interest paid | (332) | (306) |
| Tax paid | (2) | (2) |
| Net cash flows provided by operating activities | 5 | 4 |
| Cash flows from investing activities | | |
| Decrease / (increase) in due from the Parent Company | 525 | (4,210) |
| Net cash flows provided by / (used in) investing activities | 525 | (4,210) |
| Cash flows from financing activities | | |
| Proceeds from debt issuances | 4,097 | 6,255 |
| Increase / (decrease) in commercial paper | (1,658) | 1,333 |
| Redemption of debt issuances | (2,964) | (3,378) |
| Dividends paid | (5) | (4) |
| Net cash flows provided by / (used in) financing activities | (530) | 4,206 |
| Net increase in cash and cash equivalents | - | - |
| Cash and cash equivalents at beginning of the year | - | - |
| **Cash and cash equivalents at end of the year** | - | - |

| Reconciliation of profit after income tax to net cash flows provided by operating activities | | |
|---|---|---|
| Profit after income tax | 5 | 4 |
| Adjustments | | |
| Change in accrued interest receivable | 24 | 31 |
| Change in accrued interest payable | (24) | (31) |
| **Net cash flows provided by operating activities** | 5 | 4 |

# STATEMENT OF CHANGES IN EQUITY

| | Note | Retained earnings NZ$m | Total equity NZ$m |
|---|---|---|---|
| **As at 1 October 2015** | | 5 | 5 |
| Profit after income tax | | 4 | 4 |
| Ordinary dividend paid | 8 | (4) | (4) |
| **As at 30 September 2016** | | 5 | 5 |
| Profit after income tax | | 5 | 5 |
| Ordinary dividend paid | 8 | (5) | (5) |
| **As at 30 September 2017** | | 5 | 5 |

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

#### (i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Tax Administration Act 1994 (New Zealand), The Overseas Companies Regulations 2009 and the Disclosure and Transparency Rules issued by the United Kingdom Financial Conduct Authority (United Kingdom), and comply with:

- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 2013
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities
- International Financial Reporting Standards (IFRS).

The principal accounting policies adopted in the preparation of the financial statements are set out below.

#### (ii) Use of estimates and assumptions

The preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates.

#### (iii) Basis of measurement

These financial statements have been prepared on a going concern basis in accordance with historical cost concepts.

#### (iv) Rounding

The amounts contained in the financial statements have been rounded to the nearest million dollars, except where otherwise stated.

#### (v) Changes in accounting policies

There have been no changes in accounting policies or early adoption of accounting standards in the preparation and presentation of the financial statements.

#### (vi) Foreign currency translation

**Functional and presentation currency**

The financial statements are presented in New Zealand dollars, which is the Company's functional currency.

**Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they were initially recognised or included in a previous financial report, are recognised in the statement of comprehensive income in the period in which they arise.

### (b) Income and expense recognition

Interest income and interest expense are recognised in the statement of comprehensive income as they accrue, using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability. The application of the method has the effect of recognising income and expense on the financial asset or liability evenly in proportion to the amount outstanding over the period to maturity or repayment.

### (c) Income tax

#### (i) Income tax expense

Income tax on profits for the period comprises current and deferred tax. It is recognised in the statement of comprehensive income as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity.

#### (ii) Current tax

Current tax is the expected tax payable on taxable income for the period, based on tax rates (and tax laws) which are enacted or substantively enacted by the reporting date and including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

### (d) Recognition and derecognition of financial assets and financial liabilities

#### (i) Recognition

Financial assets include amounts due from the Parent Company. Financial liabilities include commercial paper and debt issuances.

The Company recognises a financial asset or liability on its balance sheet when, and only when, the Company becomes a party to the contractual provisions of the financial asset or liability. Financial assets and financial liabilities are initially recognised at fair value including directly attributable transaction costs and subsequently measured at amortised cost.

#### (ii) Derecognition

The Company derecognises a financial asset from its balance sheet when, and only when, (i) the contractual rights to the cash flows from the financial asset expire, or (ii) the Company has transferred all or substantially all of the risks and rewards of ownership of the financial asset and no longer controls the financial asset. The Company derecognises a financial liability from its balance sheet, when and only when, it is extinguished.

### (e) Presentation

#### (i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where gains and losses from a group of similar transactions are reported on a net basis such as foreign exchange gains and losses;

# NOTES TO THE FINANCIAL STATEMENTS

- where amounts are collected on behalf of third parties, where the Company is, in substance, acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Company is reimbursed.

### (ii) Offsetting of assets and liabilities

Assets and liabilities are offset and the net amount reported in the balance sheet only where:

- there is a current enforceable legal right to offset the asset and liability; and
- there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### (iii) Cash flow statement

Cash and cash equivalents comprise cash at bank.

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and immediately lent to the Parent Company. These cash flows are high volume and short term in nature and include commercial paper and related party balances.

### (iv) Segment reporting

Business segments are distinguishable components of the Company that provide products or services that are subject to risks and rewards that are different to those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments.

As the principal activity of the Company is the raising of external funding, which is on-lent to the Parent Company at a margin, and the majority of its revenue is not earned from external customers, the Company does not have any reportable segments.

### (f) Other

### (i) Accounting Standards not early adopted

The following standards and amendments were available for early adoption but have not been applied by the Company in these financial statements. The Company currently does not intend to apply any of these pronouncements until their effective date and is assessing their impact on its financial statements.

*NZ IFRS 9 Financial Instruments (effective for periods commencing after 1 January 2018)*

NZ IFRS 9 addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks.

## 2. INTEREST EXPENSE

| | Year to 30/09/2017 NZ$m | Year to 30/09/2016 NZ$m |
|---|---|---|
| Commercial paper | 51 | 44 |
| Debt issuances | 257 | 231 |
| Total interest expense | 308 | 275 |

## 3. INCOME TAX

| | Year to 30/09/2017 NZ$m | Year to 30/09/2016 NZ$m |
|---|---|---|
| Reconciliation of the prima facie income tax payable on profit | | |
| Profit before income tax | 7 | 6 |
| Prima facie income tax at 28% | 2 | 2 |
| Total income tax expense | 2 | 2 |
| Amounts recognised in the statement of comprehensive income | | |
| Current tax | 2 | 2 |
| Total income tax expense recognised in the statement of comprehensive income | 2 | 2 |

# NOTES TO THE FINANCIAL STATEMENTS

## 4. COMMERCIAL PAPER

| | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| U.S. commercial paper | 3,654 | 4,516 |
| Euro commercial paper | 65 | 842 |
| Total commercial paper | 3,719 | 5,358 |

Commercial paper issued is guaranteed by the Parent Company.

## 5. DEBT ISSUANCES

| | 30/09/2017 NZ$m | 30/09/2016 NZ$m |
|---|---|---|
| U.S. medium term notes | 9,004 | 6,883 |
| Euro medium term notes | 3,173 | 2,792 |
| Covered bonds | 5,325 | 6,218 |
| Total debt issuances | 17,502 | 15,893 |

Debt issuances are guaranteed by the Parent Company. Debt issuances, other than covered bonds, are unsecured and rank equally with other unsecured liabilities.

### Covered Bonds

Substantially all of the assets of the ANZNZ Covered Bond Trust (the Trust) are made up of certain housing loans and related securities originated by the Parent Company which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Trust of issuances of covered bonds by the Company, or the Parent Company, from time to time. The assets of the Trust are not available to creditors of the Company or the Parent Company, although the Company or the Parent Company (or its liquidator or statutory manager) may have a claim against the residual assets of the Trust (if any) after all prior ranking creditors of the Trust have been satisfied.

## 6. RELATED PARTY TRANSACTIONS

### Transactions with other related parties

The Company undertakes transactions with the Parent Company and other members of the Australia and New Zealand Banking Group Limited group of companies (ANZ Group). These transactions principally consist of funding transactions. Other members of the ANZ Group provide administrative functions, including remuneration of key management personnel, to the Company for which no payments have been made.

All interest income is from the Parent Company. Audit fees and fees for other services have been paid to the auditors by the Parent Company without reimbursement.

| | Year to 30/09/2017 NZ$000 | Year to 30/09/2016 NZ$000 |
|---|---|---|
| Audit or review of financial statements | 38 | 38 |
| Other services: | | |
| Review of offer documents | 130 | 96 |
| Other assurance services | 16 | 16 |
| Total other services | 146 | 112 |
| Total fees paid to auditors by the Parent Company | 184 | 150 |

### Balances with related parties

Cash at bank comprises short term deposits with the Parent Company.

Amounts due from the Parent Company are lent on similar terms as the underlying funding raised.

# NOTES TO THE FINANCIAL STATEMENTS

## 7. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following is an analysis of asset and liability line items in the balance sheet that combine amounts expected to be realised or due to be settled within one year and after more than one year.

| | 30/09/2017 | | | 30/09/2016 | | |
|---|---|---|---|---|---|---|
| | within one year 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 | 6,456 | 14,807 | 21,263 | 8,384 | 12,933 | 21,317 |
| **Liabilities** | | | | | | |
| Debt issuances | 2,695 | 14,807 | 17,502 | 2,960 | 12,933 | 15,893 |

## 8. EQUITY

**Capital management policies**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide funding for the shareholder and to maintain an optimal capital structure to reduce the cost of capital.

The Company's capital comprises issued share capital and retained earnings. The Company's dividend policy is to distribute all retained profits to the Parent Company.

**Ordinary share capital**

The Company's share capital consists of 500,000 (2016: 500,000) fully paid ordinary shares that have the rights and powers prescribed by Section 36 of the Companies Act 1993. The shares have a carrying value of $499,900.

The dividend on ordinary shares was $8.45 per share (2016: $8.61 per share).

## 9. FINANCIAL RISK MANAGEMENT

Financial instruments are entered into by the Company in its operations as a financial intermediary. The Company's operations are matched funded to minimise interest rate, currency and liquidity risks.

There are no material off balance sheet instruments. All aspects of risk are managed within a framework of policies, limits, control procedures, systems and reporting. Risk exposures are independently monitored and controlled within predefined limits, with an internal reporting framework in place.

**Credit risk**

Credit risk is the potential that the counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract, thus causing loss.

The Company's principal exposure is to the Parent Company and the carrying amount represents the Company's maximum and net exposure to credit risk.

**Market risk**

**Interest rate risk**

Interest rate risk relates to the potential adverse impact of changes in market interest rates on future net interest income of the Company.

The Company manages its interest rate risk by matching interest rates and tenors on its financial liabilities with the interest rates and tenors on its financial assets with the Parent Company. As a result a 1% rate shock would not have any impact on profit or loss.

**Currency risk**

Currency risk arises from changes in foreign exchange rates impacting on residual currency positions that may result from the Company's business as a financial intermediary.

Currency risk is monitored in terms of open positions to each currency, based on nominal value and the duration of each exposure. The total amount of foreign currency exposures, whether recognised or unrecognised, within each currency is not material.

# NOTES TO THE FINANCIAL STATEMENTS

### Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations on commercial paper and debt issuances when they fall due.

The Company manages its liquidity rate risk by matching interest rates and tenors on its financial liabilities with the interest rates and tenors on its financial assets with the Parent Company.

The table below provides residual contractual maturity analysis of financial liabilities at 30 September within relevant maturity groupings. All outstanding debt issuance is profiled on the earliest date on which the Company may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reporting on balance sheet.

| 30/09/2017 | Total NZ$m | Less than 3 months NZ$m | 3-12 months NZ$m | 1-5 years NZ$m | Beyond 5 years NZ$m | No specified maturity NZ$m |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Commercial paper | 3,744 | 1,118 | 2,626 | - | - | - |
| Debt issuances | 18,534 | 1,256 | 1,720 | 12,422 | 3,136 | - |
| **Total financial liabilities** | 22,278 | 2,374 | 4,346 | 12,422 | 3,136 | - |
| **30/09/2016** | | | | | | |
| **Liabilities** | | | | | | |
| Commercial paper | 5,376 | 1,054 | 4,322 | - | - | - |
| Debt issuance | 16,637 | 1,995 | 1,204 | 10,323 | 3,115 | - |
| **Total financial liabilities** | 22,013 | 3,049 | 5,526 | 10,323 | 3,115 | - |

## 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

No assets or liabilities are carried at fair value. The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments and include the following:

- for accrued interest payable, the carrying amount is equivalent to the fair value.
- for all other financial assets and financial liabilities, estimated fair values are based on market rates.

Below is a comparison of the carrying amounts as reported on the balance sheet and fair value of financial asset and liability categories other than those categories where the carrying amount is considered a reasonable approximation of fair value:

| | 30/09/2017 | | 30/09/2016 | |
|---|---|---|---|---|
| | Carrying amount NZ$m | Fair value NZ$m | Carrying amount NZ$m | Fair value NZ$m |
| **Financial assets** | | | | |
| Due from the Parent Company | 21,263 | 21,345 | 21,317 | 21,548 |
| **Financial liabilities** | | | | |
| Commercial paper | 3,719 | 3,721 | 5,358 | 5,364 |
| Debt issuances | 17,502 | 17,582 | 15,893 | 16,118 |

KPMG

# Independent Auditor's Report

To the shareholder of ANZ New Zealand (Int'l) Limited

**Report on the financial statements**

## Opinion

In our opinion, the accompanying financial statements of ANZ New Zealand (Int'l) Limited (the Company) on pages 2 to 8:

i. present fairly in all material respects the Company's financial position as at 30 September 2017 and its financial performance and cash flows for the year ended on that date

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the balance sheet as at 30 September 2017;
- the statement of comprehensive income, changes in equity and cash flow statement for the year then ended
- notes, including a summary of significant accounting policies and other explanatory information.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the Company in relation to prospectus reviews and assurance services. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the Company.

## Other information

The directors, on behalf of the Company, are responsible for the other information included in the Company's Annual Financial Report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

KPMG

## Use of this independent auditor's report

This independent auditor's report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

## Responsibilities of the Directors for the financial statements

The directors, on behalf of the Company, are responsible for:

— the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards

— implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objective is:

— to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error

— to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/

This description forms part of our independent auditor's report.

KPMG

KPMG
Wellington

15 November 2017

anz.co.nz

# ANZ NEW ZEALAND (INT'L) LIMITED
# ANNUAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2016

ANZ New Zealand (Int'l) Limited

# ANNUAL REPORT
## FOR THE YEAR ENDED 30 SEPTEMBER 2016

## CONTENTS

# ANNUAL REPORT
## FOR THE YEAR ENDED 30 SEPTEMBER 2016

ANZ New Zealand (Int'l) Limited (the Company) is incorporated in New Zealand under the Companies Act 1993. Its registered office is, Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, 1010, New Zealand.

Pursuant to section 211(3) of the Companies Act 1993, the shareholder of the Company has agreed that the Annual Report of the Company need not comply with any of the paragraphs (e) to (h) and (j) of subsection (1) and subsection (2) of section 211.

## Management Report

### Nature of Business

The Company provides funding facilities and wholesale funding to its parent company, ANZ Bank New Zealand Limited (the Parent Company) including the issuance of U.S. Commercial Paper, Euro-Commercial Paper, U.S. Medium-Term Notes, Euro Medium-Term Notes and Covered Bonds. The Company's overseas activities are currently conducted through its London Branch. The Company has no subsidiaries.

There have not been any material changes in the nature of the Company's business during the year.

### Business Review

The movement in the Company's total assets from $20,824 million as at 30 September 2015 to $21,317 million as at 30 September 2016 has been driven primarily by an increased funding requirement from its parent entity.

The movement includes:

| NZ$m | Debt Issuances | Commercial Paper | Total |
|---|---|---|---|
| Issuances | 6,255 | 15,541 | 21,796 |
| Maturities | (3,378) | (14,208) | (17,586) |
| Net issuances | 2,877 | 1,333 | 4,210 |
| Foreign exchange revaluation | (2,748) | (938) | (3,686) |
| Movement | 129 | 395 | 524 |

Net interest income was $6 million for the year to 30 September 2016 (2015: $7 million).

### Principal Risks and Uncertainties

The Company expects minimal change to principal risks and uncertainties over the next year.

The Company's exposure to risk arises from the Company's operations as a financial intermediary and participant in the financial markets. All aspects of risk are managed within a framework of policies, limits, control procedures, systems and reporting, and risk exposures are independently monitored and controlled within predefined limits, with an internal reporting framework in place.

The Company carries minimal interest rate, liquidity and currency risk reflecting the Company's role as a financial intermediary. The Company's principal credit risk exposure continues to be to the Parent Company. Operational risk is managed through a comprehensive infrastructure of effective policies, procedures, businesses systems and compliance.

### Other Information

- No important events have occurred since the end of the financial year.
- No significant changes are planned to the future operations of the Company.
- The Company is not involved in research and development.
- The Company has not acquired any of its own shares.
- The Company only operates through its London branch.

### Directors

There have been no changes to the Directors of the Company since 30 September 2015.

## Responsibility Statement

As at the date on which this Responsibility Statement is signed, after due enquiry and to the best of their knowledge, the Directors confirm that:

(a) the financial statements, prepared in accordance with New Zealand Generally Accepted Accounting Practice and International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

(b) the management report of the Company includes a fair review of the development and performance of the business and the position of the Company and the principal risks and uncertainties that it faces.

For and on behalf of the Board of Directors:

Anthony Bradshaw
Director
16 November 2016

Antonia Watson
Director
16 November 2016

# STATEMENT OF COMPREHENSIVE INCOME

| | Note | Year to 30/09/2016 NZ$m | Year to 30/09/2015 NZ$m |
|---|---|---|---|
| Interest income | 6 | 281 | 260 |
| Interest expense | 2 | 275 | 253 |
| **Profit before income tax** | | 6 | 7 |
| Income tax expense | 3 | 2 | 2 |
| **Profit after income tax** | | 4 | 5 |

There are no items of other comprehensive income.

# STATEMENT OF CHANGES IN EQUITY

| | Note | Retained earnings NZ$m | Total equity NZ$m |
|---|---|---|---|
| **As at 1 October 2014** | | 5 | 5 |
| Profit after income tax | | 5 | 5 |
| Ordinary dividend paid | 8 | (5) | (5) |
| **As at 30 September 2015** | | 5 | 5 |
| Profit after income tax | | 4 | 4 |
| Ordinary dividend paid | 8 | (4) | (4) |
| **As at 30 September 2016** | | 5 | 5 |

# BALANCE SHEET

| | Note | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|---|
| **Assets** | | | |
| Due from the Parent Company | 6 | 21,317 | 20,824 |
| **Total assets** | | 21,317 | 20,824 |
| **Liabilities** | | | |
| Accrued interest payable | | 60 | 91 |
| Commercial paper | 4 | 5,358 | 4,963 |
| Current tax liabilities | | 1 | 1 |
| Debt issuances | 5 | 15,893 | 15,764 |
| **Total liabilities** | | 21,312 | 20,819 |
| **Net assets** | | 5 | 5 |
| **Equity** | | | |
| Retained profits | | 5 | 5 |
| **Total equity** | 8 | 5 | 5 |

For and on behalf of the Board of Directors:

Anthony Bradshaw
Director
16 November 2016

Antonia Watson
Director
16 November 2016

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

# CASH FLOW STATEMENT

| | Year to 30/09/2016 NZ$m | Year to 30/09/2015 NZ$m |
|---|---|---|
| Cash flows from operating activities | | |
| Interest received | 312 | 267 |
| Interest paid | (306) | (260) |
| Tax paid | (2) | (2) |
| Net cash flows provided by operating activities | 4 | 5 |
| Cash flows from investing activities | | |
| Decrease / (increase) in due from the Parent Company | (4,210) | 668 |
| Net cash flows provided by / (used in) investing activities | (4,210) | 668 |
| Cash flows from financing activities | | |
| Proceeds from debt issuances | 6,255 | 3,337 |
| Increase / (decrease) in due to other related parties | - | (179) |
| Increase / (decrease) in commercial paper | 1,333 | (494) |
| Redemption of debt issuances | (3,378) | (3,511) |
| Dividends paid | (4) | (5) |
| Net cash flows provided by / (used in) financing activities | 4,206 | (852) |
| Net increase / (decrease) in cash and cash equivalents | - | (179) |
| Cash and cash equivalents at beginning of the year | - | 179 |
| **Cash and cash equivalents at end of the year** | - | - |

| Reconciliation of profit after income tax to net cash flows provided by operating activities | | |
|---|---|---|
| Profit after income tax | 4 | 5 |
| | | |
| Adjustments | | |
| Change in accrued interest receivable | 31 | 7 |
| Change in accrued interest payable | (31) | (7) |
| **Net cash flows provided by operating activities** | 4 | 5 |

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 Companies Act 1993, and comply with:

- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 2013
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable profit-oriented entities
- International Financial Reporting Standards (IFRS).

The ultimate parent company is Australia and New Zealand Banking Group Limited (the Ultimate Parent).

The principal accounting policies adopted in the preparation of the financial statements are set out below.

#### (ii) Use of estimates and assumptions

The preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates.

#### (iii) Basis of measurement

These financial statements have been prepared on a going concern basis in accordance with historical cost concepts.

#### (iv) Rounding

The amounts contained in the financial statements have been rounded to the nearest million dollars, except where otherwise stated.

#### (v) Changes in accounting policies

There have been no changes in accounting policies or early adoption of accounting standards in the preparation and presentation of the financial statements.

#### (vi) Foreign currency translation

**Functional and presentation currency**

The financial statements are presented in New Zealand dollars, which is the Company's functional currency.

**Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they were initially recognised or included in a previous financial report, are recognised in the statement of comprehensive income in the period in which they arise.

### (b) Income and expense recognition

Interest income and interest expense are recognised in the statement of comprehensive income as they accrue, using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability. The application of the method has the effect of recognising income and expense on the financial asset or liability evenly in proportion to the amount outstanding over the period to maturity or repayment.

### (c) Income tax

#### (i) Income tax expense

Income tax on profits for the period comprises current and deferred tax. It is recognised in the statement of comprehensive income as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity.

#### (ii) Current tax

Current tax is the expected tax payable on taxable income for the period, based on tax rates (and tax laws) which are enacted or substantively enacted by the reporting date and including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

### (d) Recognition and derecognition of financial assets and financial liabilities

#### (i) Recognition

Financial assets include amounts due from the Parent Company. Financial liabilities include commercial paper, amounts due to related parties and debt issuances.

The Company recognises a financial asset or liability on its balance sheet when, and only when, the Company becomes a party to the contractual provisions of the financial asset or liability. Financial assets and financial liabilities are initially recognised at fair value including directly attributable transaction costs and subsequently measured at amortised cost.

#### (ii) Derecognition

The Company derecognises a financial asset from its balance sheet when, and only when, (i) the contractual rights to the cash flows from the financial asset expire, or (ii) the Company has transferred all or substantially all of the risks and rewards of ownership of the financial asset and no longer controls the financial asset. The Company derecognises a financial liability from its balance sheet, when and only when, it is extinguished.

### (e) Presentation

#### (i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where gains and losses from a group of similar transactions are reported on a net basis such as foreign exchange gains and losses;

# NOTES TO THE FINANCIAL STATEMENTS

- where amounts are collected on behalf of third parties, where the Company is, in substance, acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Company is reimbursed.

**(ii) Offsetting of assets and liabilities**

Assets and liabilities are offset and the net amount reported in the balance sheet only where:

- there is a current enforceable legal right to offset the asset and liability; and
- there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(iii) Cash flow statement**

Cash and cash equivalents comprise cash at bank.

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and immediately lent to the Parent Company. These cash flows are high volume and short term in nature and include commercial paper and related party balances.

**(iv) Segment reporting**

Business segments are distinguishable components of the Company that provide products or services that are subject to risks and rewards that are different to those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments.

As the principal activity of the Company is the raising of external funding, which is on-lent to the Parent Company at a margin, and the majority of its revenue is not earned from external customers, the Company does not have any reportable segments.

**(f) Other**

**(i) Accounting Standards not early adopted**

The following standards and amendments were available for early adoption but have not been applied by the Company in these financial statements. The Company currently does not intend to apply any of these pronouncements until their effective date and is assessing their impact on its financial statements.

*NZ IFRS 9 Financial Instruments (effective for periods commencing after 1 January 2018)*

Specifies a simpler methodology for classifying and measuring financial assets, with two primary measurement categories: amortised cost and fair value. Requires the amount of change in the fair value attributable to changes in credit risk of certain liabilities designated under the fair value option to be presented in other comprehensive income.

## 2. INTEREST EXPENSE

| | Year to 30/09/2016 NZ$m | Year to 30/09/2015 NZ$m |
|---|---|---|
| Commercial paper | 44 | 15 |
| Debt issuances | 231 | 238 |
| Total interest expense | 275 | 253 |

## 3. INCOME TAX

| | Year to 30/09/2016 NZ$m | Year to 30/09/2015 NZ$m |
|---|---|---|
| Reconciliation of the prima facie income tax payable on profit | | |
| Profit before income tax | 6 | 7 |
| Prima facie income tax at 28% | 2 | 2 |
| Total income tax expense | 2 | 2 |
| Amounts recognised in the statement of comprehensive income | | |
| Current tax | 2 | 2 |
| Total income tax expense recognised in the statement of comprehensive income | 2 | 2 |

## 4. COMMERCIAL PAPER

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| U.S. commercial paper | 4,516 | 4,844 |
| Euro commercial paper | 842 | 119 |
| Total commercial paper | 5,358 | 4,963 |

Commercial paper issued is guaranteed by the Parent Company.

# NOTES TO THE FINANCIAL STATEMENTS

## 5. DEBT ISSUANCES

| | 30/09/2016 NZ$m | 30/09/2015 NZ$m |
|---|---|---|
| U.S. medium term notes | 6,883 | 6,831 |
| Euro medium term notes | 2,792 | 3,598 |
| Covered bonds | 6,218 | 5,335 |
| Total debt issuances | 15,893 | 15,764 |

Debt issuances are guaranteed by the Parent Company. Debt issuances, other than covered bonds, are unsecured and rank equally with other unsecured liabilities.

### Covered Bonds

Substantially all of the assets of the ANZNZ Covered Bond Trust (the Trust) are made up of certain housing loans and related securities originated by the Parent Company which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Trust of issuances of covered bonds by the Company, or the Parent Company, from time to time. The assets of the Trust are not available to creditors of the Company or the Parent Company, although the Company or the Parent Company (or its liquidator or statutory manager) may have a claim against the residual assets of the Trust (if any) after all prior ranking creditors of the Trust have been satisfied.

## 6. RELATED PARTY TRANSACTIONS

### Transactions with other related parties

The Company undertakes transactions with the Parent Company and other members of the Australia and New Zealand Banking Group Limited group of companies (ANZ Group). These transactions principally consist of funding transactions. Other members of the ANZ Group provide administrative functions, including remuneration of key management personnel, to the Company for which no payments have been made.

All interest income is from the Parent Company. Audit fees and fees for other services have been paid to the auditors by the Parent Company without reimbursement.

| | Year to 30/09/2016 NZ$000 | Year to 30/09/2015 NZ$000 |
|---|---|---|
| Audit or review of financial statements | 38 | 37 |
| Other services: | | |
| Review of offer documents | 96 | 143 |
| Other assurance services | 16 | 33 |
| Total other services | 112 | 176 |
| Total fees paid to auditors by the Parent Company | 150 | 213 |

### Balances with related parties

Cash at bank comprises short term deposits with the Parent Company.

Amounts due from the Parent Company are lent on similar terms as the underlying funding raised.

Amounts due to other related parties are guaranteed by the Parent Company.

# NOTES TO THE FINANCIAL STATEMENTS

## 7. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following is an analysis of asset and liability line items in the balance sheet that combine amounts expected to be realised or due to be settled within one year and after more than one year.

| | 30/09/2016 | | | 30/09/2015 | | |
|---|---|---|---|---|---|---|
| | within one year NZ$m | after more than one year NZ$m | Total NZ$m | within one year NZ$m | after more than one year NZ$m | Total NZ$m |
| **Assets** | | | | | | |
| Due from Parent Company | 8,384 | 12,933 | 21,317 | 9,451 | 11,373 | 20,824 |
| **Liabilities** | | | | | | |
| Debt issuances | 2,960 | 12,933 | 15,893 | 4,391 | 11,373 | 15,764 |

## 8. EQUITY

### Capital management policies

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide funding for the shareholder and to maintain an optimal capital structure to reduce the cost of capital.

The Company's capital comprises issued share capital and retained earnings. The Company's dividend policy is to distribute all retained profits to the Parent Company.

### Ordinary share capital

The Company's share capital consists of 500,000 (2015: 500,000) fully paid ordinary shares that have the rights and powers prescribed by Section 36 of the Companies Act 1993. The shares have a carrying value of $499,900.

The dividend on ordinary shares was $8.61 per share (2015: $9.00 per share).

# NOTES TO THE FINANCIAL STATEMENTS

## 9. FINANCIAL RISK MANAGEMENT

Financial instruments are entered into by the Company in its operations as a financial intermediary. The Company's operations are matched funded to minimise interest rate, currency and liquidity risks.

There are no material off balance sheet instruments. All aspects of risk are managed within a framework of policies, limits, control procedures, systems and reporting. Risk exposures are independently monitored and controlled within predefined limits, with an internal reporting framework in place.

### Credit risk

Credit risk is the potential that the counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract, thus causing loss.

The Company's principal exposure is to the Parent Company and the carrying amount represents the Company's maximum and net exposure to credit risk.

### Market risk

### Interest rate risk

The following tables represent the interest rate sensitivity of the Company's assets and liabilities by showing the periods in which these instruments may reprice (that is, when interest rates applicable to each asset or liability can be changed). The repricing gaps are based on contractual repricing information.

| 30/09/2016 | Carrying value NZ$m | At call or less than 3 months NZ$m | 3-6 months NZ$m | 6-12 months NZ$m | 1-5 years NZ$m | Non interest bearing NZ$m |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Due from the Parent Company | 21,317 | 6,108 | 1,799 | 813 | 12,527 | 70 |
| **Total financial assets** | 21,317 | 6,108 | 1,799 | 813 | 12,527 | 70 |
| **Financial liabilities** | | | | | | |
| Accrued interest payable | 60 | - | - | - | - | 60 |
| Commercial paper | 5,358 | 3,431 | 1,802 | 125 | - | - |
| Debt issuances | 15,893 | 2,678 | - | 688 | 12,527 | - |
| **Total financial liabilities** | 21,311 | 6,109 | 1,802 | 813 | 12,527 | 60 |
| **Net repricing profile** | 6 | (1) | (3) | - | - | 10 |
| **30/09/2015** | | | | | | |
| **Financial assets** | | | | | | |
| Due from the Parent Company | 20,824 | 8,385 | 2,284 | - | 10,059 | 96 |
| **Total financial assets** | 20,824 | 8,385 | 2,284 | - | 10,059 | 96 |
| **Financial liabilities** | | | | | | |
| Accrued interest payable | 91 | - | - | - | - | 91 |
| Commercial paper | 4,963 | 4,114 | 849 | - | - | - |
| Debt issuances | 15,764 | 4,268 | 1,437 | - | 10,059 | - |
| **Total financial liabilities** | 20,818 | 8,382 | 2,286 | - | 10,059 | 91 |
| **Net repricing profile** | 6 | 3 | (2) | - | - | 5 |

### Currency risk

Currency risk arises from changes in foreign exchange rates impacting on residual currency positions that may result from the Company's business as a financial intermediary.

Currency risk is monitored in terms of open positions to each currency, based on nominal value and the duration of each exposure. The total amount of foreign currency exposures, whether recognised or unrecognised, within each currency is not material.

# NOTES TO THE FINANCIAL STATEMENTS

### Liquidity risk

Liquidity risk is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period. Liquidity risk arises from mismatch in the final maturity of on-balance sheet assets and liabilities plus settlement of off-balance sheet activities.

The following maturity analysis of assets and liabilities has been prepared on the basis of the remaining period to contractual maturity as at balance date. The amounts represent principal and interest cash flows and may differ to the amounts reported on the balance sheet.

| 30/09/2016 | 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 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Due from the Parent Company | 22,039 | 3,055 | 5,530 | 10,337 | 3,117 | - |
| **Total financial assets** | 22,039 | 3,055 | 5,530 | 10,337 | 3,117 | - |
| **Liabilities** | | | | | | |
| Commercial paper | 5,376 | 1,054 | 4,322 | - | - | - |
| Debt issuances | 16,637 | 1,995 | 1,204 | 10,323 | 3,115 | - |
| **Total financial liabilities** | 22,013 | 3,049 | 5,526 | 10,323 | 3,115 | - |
| **Net liquidity gap** | 26 | 6 | 4 | 14 | 2 | - |
| | | | | | | |
| **30/09/2015** | | | | | | |
| **Assets** | | | | | | |
| Due from the Parent Company | 21,436 | 5,188 | 4,399 | 10,455 | 1,394 | - |
| **Total financial assets** | 21,436 | 5,188 | 4,399 | 10,455 | 1,394 | - |
| **Liabilities** | | | | | | |
| Commercial paper | 4,966 | 2,985 | 1,981 | - | - | - |
| Debt issuance | 16,448 | 2,197 | 2,414 | 10,444 | 1,393 | - |
| **Total financial liabilities** | 21,414 | 5,182 | 4,395 | 10,444 | 1,393 | - |
| **Net liquidity gap** | 22 | 6 | 4 | 11 | 1 | - |

## 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments and include the following:

- for accrued interest payable, the carrying amount is equivalent to the fair value.
- for all other financial assets and financial liabilities, estimated fair values are based on market rates.

| | 30/09/2016 Carrying amount NZ$m | 30/09/2016 Fair value NZ$m | 30/09/2015 Carrying amount NZ$m | 30/09/2015 Fair value NZ$m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Due from the Parent Company | 21,317 | 21,548 | 20,824 | 21,014 |
| **Total financial assets** | 21,317 | 21,548 | 20,824 | 21,014 |
| **Financial liabilities** | | | | |
| Accrued interest payable | 60 | 60 | 91 | 91 |
| Commercial paper | 5,358 | 5,364 | 4,963 | 4,964 |
| Debt issuances | 15,893 | 16,118 | 15,764 | 15,953 |
| **Total financial liabilities** | 21,311 | 21,542 | 20,818 | 21,008 |

KPMG

# INDEPENDENT AUDITOR'S REPORT

## To the Shareholder of ANZ New Zealand (Int'l) Limited

We have audited the accompanying financial statements of ANZ New Zealand (Int'l) Limited (the Company) on pages 2 to 10. The financial statements comprise the balance sheet as at 30 September 2016, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the company's shareholder those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholder as a body, for our audit work, this report or any of the opinions we have formed.

***Directors' responsibility for the financial statements***

The directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the Company in relation to prospectus reviews and assurance services. These matters have not impaired our independence as auditors of the Company. The firm has no other relationship with, or interest in, the Company.

***Opinion***

In our opinion the financial statements on pages 2 to 10 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of ANZ New Zealand (Int'l) Limited as at 30 September 2016 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

Wellington
16 November 2016

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 December 1, 2017 (the "Offering Memorandum").**

**[PROHIBITION OF SALES TO EEA RETAIL INVESTORS: The Notes are not intended [, from January 1, 2018,] to be offered, sold or otherwise made available to and [, with effect from such date,] should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); (ii) a customer within the meaning of Directive 2002/92/EC (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, including by Directive 2010/73/EU (the "Prospectus Directive")). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation].**

**[This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC, as amended, including by Directive 2010/73/EU (the "Prospectus Directive"), and must be read in conjunction with the Offering Memorandum [and the supplements[s] dated []], which constitutes a base prospectus for the purposes of the Prospectus Directive. Full information on ANZ New Zealand (Int'l) Limited/ANZ Bank New Zealand Limited and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Memorandum [and the supplement[s] dated []].**

**The Offering Memorandum [and the supplement[s] dated []] is [are] available for viewing during normal business hours at ANZ Centre, Ground Floor, 23-29 Albert Street, Auckland 1010, New Zealand [and copies may be obtained from ANZ Centre, Ground Floor, 23-29 Albert Street, Auckland 1010, New Zealand].] / [This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC, as amended, by Directive 2010/73/EU (the "Prospectus Directive"), and must be read in conjunction with the Offering Memorandum [and the supplement[s] dated []], which constitutes a base prospectus for the purposes of the Prospectus Directive, including the terms and conditions of the Notes as set out in the section entitled "Description of the Notes and the Guarantee" in the Offering Memorandum dated []. Full information on ANZ New Zealand (Int'l) Limited/ANZ Bank New Zealand Limited and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Memorandum [and the supplement[s] dated []]. The Offering Memorandum [and the supplement[s] dated []]is [are] available for viewing during normal business hours at ANZ Centre, Ground Floor, 23-29 Albert Street, Auckland 1010, New Zealand [and copies may be obtained from ANZ Centre, Ground Floor, 23-29 Albert Street, Auckland 1010, New Zealand].]**

**Final Terms—dated** [ ]

In terms of the Fiscal Agency Agreement dated as of March 15, 2005, as amended, we wish to advise the following in respect of the latest issue of Notes.

| | |
|---|---|
| **Deal Reference MTN:** | [ ] |
| Issuer: | [ANZ New Zealand (Int'l) Limited] OR [ANZ Bank New Zealand Limited] |
| [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: | [Commercial Paper Rate] OR [Prime Rate] OR [CD Rate] OR [Federal Funds Rate] OR [LIBOR] OR [EURIBOR] OR [Treasury Rate] OR [CMT Rate] |
| Initial Base Rate: | [ ]% |
| Spread (if applicable): | [Not Applicable] OR [ ] |
| Spread Multiplier (if applicable): | [Not Applicable] OR [ ] |
| Maximum (if applicable): | [Not Applicable] OR [ ] |
| Minimum (if applicable): | [Not Applicable] OR [ ] |
| Interest Payment Dates: | [third Wednesday of each month/March/June/September/December] OR [•] |
| Interest Payment Period: | [ ] |
| Interest Reset Period: | [ ] |
| Interest Reset Dates: | [Annually/Semi-annually/Quarterly/Monthly/Weekly/Daily] |
| Initial Interest Reset Date: | [ ] |
| Interest Calculation Date: | [Earlier of the tenth calendar day after Interest Determination Date, or if such day is not a business day, the next succeeding business day and the business day preceding the applicable Interest Payment Date or Stated Maturity, as the case may be] OR [Not Applicable—if LIBOR or EURIBOR] OR [•] |
| Interest Determination Dates: | [ ] |
| Index Maturity: | [ ] |
| **LIBOR Notes:** | [Applicable/Not Applicable] |
| Applicable provisions: | [Reuters LIBOR01] |
| Designated LIBOR Page: | [Reuters LIBOR01] |
| Index currency: | [ ] |
| **CD Rate Notes:** | [Applicable/Not Applicable] |
| | [*Specify reference source and heading*] |
| **CMT Rate Notes:** | [Applicable/Not Applicable] |
| Designated CMT Page: | [Reuters FRBCMT/Reuters FEDCMT] |
| | [Weekly Average] OR [Monthly Average] |
| Designated CMT Maturity Index: | [1/2/3/5/7/10/20/30] |

| | |
|---|---|
| **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: | [ ] |
| Listing: | The Official List of the UK Listing Authority |
| Admission to trading: | [Application has been made for the Notes to be admitted to trading on the London Stock Exchange with effect from [ ].] |
| Denominations: | [ ] |
| Covenant Defeasance: | [Applicable/Not Applicable] |
| CUSIP: | [ ] |
| ISIN: | [ ] |
| Common Code: | [ ] |
| Ratings: | The Notes to be issued [have been] OR [are expected to be] rated:<br>[Standard & Poor's (Australia) Pty. Ltd. [ ]]<br>[Moody's Investors Service Pty Limited [ ]]<br>[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. |
| **Reasons for the offer:** | [ ] |

| | |
|---|---|
| (i) Estimated net proceeds: | [●] |
| (ii) Estimated total expenses: | [●] |

**Yield (Fixed Rate Notes only):**

| | |
|---|---|
| Indication of Yield: | The yield is [●]% per annum] |

[The information relating to [●] has been extracted from [●]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By:

Duly authorized

[By:

Duly authorized]

**ANZ Bank New Zealand Limited**
*ANZ Centre, Ground Floor, 23-29 Albert Street*
*Auckland 1010*
*New Zealand*

**ANZ New Zealand (Int'l) Limited**
*ANZ Centre, Ground Floor, 23-29 Albert Street*
*Auckland 1010*
*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**
***The Bank of New York Mellon***
*48th Floor*
*One Canada Square*
*London E14 5AL*
*United Kingdom*

**Legal Advisers**
*To ANZ Bank New Zealand Limited and ANZ New Zealand (Int'l) Limited*

*As to United States law*
***Sullivan & Cromwell***
*Level 32*
*101 Collins Street*
*Melbourne Victoria 3000*
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***Ashurst LLP***
*Broadwalk House*
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*As to New Zealand law*
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*157 Lambton Quay*
*Wellington*
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*To the Agents*

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***Sidley Austin LLP***
*787 Seventh Avenue*
*New York, New York 10019*
*United States*

*As to English law*
***Sidley Austin LLP***
*Woolgate Exchange*
*25 Basinghall Street*
*London EC2V 5HA*
*United Kingdom*

**Independent Auditors**
*To ANZ Bank New Zealand Limited and ANZ New Zealand (Int'l) Limited*

***KPMG***
*10 Customhouse Quay*
*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**