ANZ BANK NEW ZEALAND LIMITED
ANNUAL REPORT AND REGISTERED BANK DISCLOSURE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2019
NUMBER 92 | ISSUED DECEMBER 2019

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ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2019

Pursuant to section 211(3) of the Companies Act 1993, the shareholder of the Bank has agreed that the Annual Report of the Banking Group need not comply with any of the paragraphs (a), and (e) to (j) of subsection (1) and subsection (2) of section 211.

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year ended 30 September 2019 and the audit report on those financial statements.

For and on behalf of the Board of Directors:

Rt Hon Sir John Key, GNZM AC	Mark Verbiest
Chair	Independent Non-Executive Director
12 December 2019	12 December 2019

GLOSSARY OF TERMS

In this Registered Bank Disclosure Statement (Disclosure Statement) unless the context otherwise requires:

Bank means ANZ Bank New Zealand Limited.

Banking Group, We or Our means the Bank and all its controlled entities.

Immediate Parent Company means ANZ Holdings (New Zealand) Limited.

Ultimate Parent Bank means Australia and New Zealand Banking Group Limited.

Overseas Banking Group means the worldwide operations of Australia and New Zealand Banking Group Limited including its controlled entities.

New Zealand business means all business, operations, or undertakings conducted in or from New Zealand identified and treated as if it were conducted by a company formed and registered in New Zealand.

NZ Branch means the New Zealand business of the Ultimate Parent Bank.

ANZ New Zealand means the New Zealand business of the Overseas Banking Group.

OnePath means OnePath Life (NZ) Limited.

UDC means UDC Finance Limited.

Registered Office is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, New Zealand, which is also the Banking Group's address for service.

RBNZ means the Reserve Bank of New Zealand.

APRA means the Australian Prudential Regulation Authority.

the Order means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

Any term or expression which is defined in, or in the manner prescribed by, the Order shall have the meaning given in or prescribed by the Order.

FINANCIAL STATEMENTS

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FINANCIAL STATEMENTS

INCOME STATEMENT

For the year ended 30 September	Note	2019 NZ$m	2018 NZ$m
Interest income		6,423	6,390
Interest expense		(3,179)	(3,240)
Net interest income	2	3,244	3,150
Other operating income	2	915	972
Net income from insurance business	2	27	149
Share of associates' profit	2	4	5
Operating income		4,190	4,276
Operating expenses	3	(1,608)	(1,517)
Profit before credit impairment and income tax		2,582	2,759
Credit impairment charge	12	(101)	(55)
Profit before income tax		2,481	2,704
Income tax expense	4	(662)	(751)
Profit for the year		1,819	1,953

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2019 NZ$m	2018 NZ$m
Profit for the year	1,819	1,953
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	(33)	2
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised losses recognised directly in equity	(31)	(27)
Realised losses transferred to the income statement	14	5
Income tax attributable to the above items	15	6
Other comprehensive income after tax	(35)	(14)
Total comprehensive income for the year	1,784	1,939

The notes appearing on pages 8 to 64 form an integral part of these financial statements

BALANCE SHEET

As at 30 September	Note	2019 NZ$m	2018 NZ$m
Assets			
Cash and cash equivalents	7	**2,363**	2,200
Settlement balances receivable		**193**	656
Collateral paid		**2,324**	1,919
Trading securities	8	**8,942**	8,024
Derivative financial instruments	9	**11,666**	8,086
Investment securities[1]	10	**7,027**	6,502
Net loans and advances	11	**132,525**	126,466
Assets held for sale	26	**-**	897
Investments in associates		**-**	6
Deferred tax assets	4	**77**	-
Goodwill and other intangible assets	19	**3,276**	3,289
Premises and equipment		**335**	325
Other assets		**688**	642
Total assets		**169,416**	159,012
Liabilities			
Settlement balances payable		**1,607**	2,161
Collateral received		**991**	845
Deposits and other borrowings	13	**113,427**	108,008
Derivative financial instruments	9	**11,042**	8,095
Current tax liabilities		**101**	161
Deferred tax liabilities		**-**	21
Liabilities held for sale	26	**-**	334
Payables and other liabilities		**1,159**	947
Employee entitlements		**138**	120
Other provisions	20	**314**	76
Debt issuances	14	**26,207**	25,135
Total liabilities		**154,986**	145,903
Net assets		**14,430**	13,109
Equity			
Share capital	21	**11,888**	11,888
Reserves		**21**	33
Retained earnings		**2,521**	1,188
Total equity		**14,430**	13,109

[1] On adoption of NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) on 1 October 2018, the classification and measurement of financial assets were revised. The available-for-sale classification used in comparative periods ceases to exist under NZ IFRS 9 and a new classification of investment securities was introduced. Refer to Note 1 and Note 10 for further details.

For and on behalf of the Board of Directors:

Rt Hon Sir John Key, GNZM AC
Chair
12 December 2019

Mark Verbiest
Independent Non-Executive Director
12 December 2019

The notes appearing on pages 8 to 64 form an integral part of these financial statements

FINANCIAL STATEMENTS

CASH FLOW STATEMENT

For the year ended 30 September	Note	2019 NZ$m	2018 NZ$m
Profit after income tax		1,819	1,953
Adjustments to reconcile to net cash provided by/(used in) operating activities:			
Depreciation and amortisation		81	88
Loss on sale and impairment of premises and equipment		10	4
Net derivatives/foreign exchange adjustment		246	1,150
Proceeds from divestments net of intangibles disposed of, classified as investing activities		(646)	-
Other non-cash movements		(130)	(22)
Net (increase)/decrease in operating assets:			
Collateral paid		(405)	(504)
Trading securities		(918)	(361)
Net loans and advances		(6,059)	(5,927)
Other assets		1,136	(266)
Net increase/(decrease) in operating liabilities:			
Deposits and other borrowings		5,419	5,312
Settlement balances payable		(554)	390
Collateral received		146	232
Other liabilities		53	48
Total adjustments		(1,621)	144
Net cash flows from operating activities[1]		198	2,097
Cash flows from investing activities			
Investment securities:			
Purchases		(2,347)	(4,368)
Proceeds from sale or maturity		1,963	4,246
Proceeds from divestments	26	747	-
Other assets		(88)	3
Net cash flows from investing activities		275	(119)
Cash flows from financing activities			
Debt issuances:[2]			
Issue proceeds		4,010	3,385
Redemptions		(3,909)	(3,991)
Proceeds from issue of ordinary shares		-	3,000
Dividends paid		(411)	(4,611)
Net cash flows from financing activities		(310)	(2,217)
Net change in cash and cash equivalents		163	(239)
Cash and cash equivalents at beginning of year		2,200	2,439
Cash and cash equivalents at end of year		2,363	2,200

1 Net cash provided by operating activities includes income taxes paid of NZ$780 million (2018: NZ$619 million).

2 Movement in debt issuances (Note 14 Debt Issuances) also includes an NZ$418 million increase (2018: NZ$1,365 million increase) from the effect of foreign exchange rates, a NZ$657 million increase (2018: NZ$246 million decrease) from changes in fair value hedging instruments and a NZ$104 million decrease (2018: NZ$16 million increase) of other changes.

The notes appearing on pages 8 to 64 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital NZ$m	Investment securities revaluation reserve NZ$m	Cash flow hedging reserve NZ$m	Retained earnings NZ$m	Total equity NZ$m
As at 1 October 2017		8,888	5	43	3,845	12,781
Profit or loss		-	-	-	1,953	1,953
Unrealised gains / (losses) recognised directly in equity		-	8	(35)	-	(27)
Realised losses transferred to the income statement		-	-	5	-	5
Actuarial gain on defined benefit schemes		-	-	-	2	2
Income tax credit / (expense) on items recognised directly in equity		-	(2)	9	(1)	6
Total comprehensive income for the year		-	6	(21)	1,954	1,939
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary shares issued	21	3,000	-	-	-	3,000
Ordinary dividends paid	5	-	-	-	(4,600)	(4,600)
Preference dividends paid	21	-	-	-	(11)	(11)
Transactions with Immediate Parent Company in its capacity as owner		3,000	-	-	(4,611)	(1,611)
As at 30 September 2018		11,888	11	22	1,188	13,109
As at 1 October 2018		**11,888**	**11**	**22**	**1,188**	**13,109**
Impact on transition to NZ IFRS 9	1	**-**	**-**	**-**	**(52)**	**(52)**
As at 1 October 2018 (adjusted)		**11,888**	**11**	**22**	**1,136**	**13,057**
Profit or loss		**-**	**-**	**-**	**1,819**	**1,819**
Unrealised losses recognised directly in equity		**-**	**(24)**	**(7)**	**-**	**(31)**
Realised losses transferred to the income statement		**-**	**-**	**14**	**-**	**14**
Actuarial loss on defined benefit schemes		**-**	**-**	**-**	**(33)**	**(33)**
Income tax credit / (expense) on items recognised directly in equity		**-**	**7**	**(2)**	**10**	**15**
Total comprehensive income for the year		**-**	**(17)**	**5**	**1,796**	**1,784**
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary dividends paid	5	**-**	**-**	**-**	**(400)**	**(400)**
Preference dividends paid	21	**-**	**-**	**-**	**(11)**	**(11)**
Transactions with Immediate Parent Company in its capacity as owner		**-**	**-**	**-**	**(411)**	**(411)**
As at 30 September 2019		**11,888**	**(6)**	**27**	**2,521**	**14,430**

The notes appearing on pages 8 to 64 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS

These are the financial statements for ANZ Bank New Zealand Limited (the Bank) and its controlled entities (together, the 'Banking Group') for the year ended 30 September 2019. The Bank is incorporated and domiciled in New Zealand. The address of the Bank's registered office and its principal place of business is ANZ Centre, 23-29 Albert Street, Auckland, New Zealand.

On 12 December 2019, the Directors resolved to authorise the issue of these financial statements.

Information in the financial statements is included only to the extent we consider it material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- the amount is significant in size (quantitative factor);
- the information is significant by nature (qualitative factor);
- the user cannot understand the Banking Group's results without the specific disclosure (qualitative factor);
- the information is critical to a user's understanding of the impact of significant changes in the Banking Group's business during the period – for example: business acquisitions or disposals (qualitative factor);
- the information relates to an aspect of the Banking Group's operations that is important to its future performance (qualitative factor); or
- the information is required under legislative requirements of the Financial Markets Conduct Act 2013 or by the Banking Group's principal regulator, RBNZ.

This section of the financial statements:

- outlines the basis upon which the Banking Group's financial statements have been prepared; and
- discusses any new accounting standards or regulations that directly impact the financial statements.

BASIS OF PREPARATION

These financial statements are general purpose (Tier 1) financial statements prepared by a 'for profit' entity, in accordance with the requirements of the Financial Markets Conduct Act 2013. These financial statements comply with:

- New Zealand Generally Accepted Accounting Practice (NZ GAAP), as defined in the Financial Reporting Act 2013;
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities; and
- International Financial Reporting Standards (IFRS).

We present the financial statements of the Banking Group in New Zealand dollars, which is the Banking Group's functional and presentation currency. We have rounded values to the nearest million dollars (NZ$m), unless otherwise stated.

BASIS OF MEASUREMENT

We have prepared the financial information in accordance with the historical cost basis - except for the following assets and liabilities which we have stated at their fair value:

- derivative financial instruments;
- financial instruments measured at fair value through other comprehensive income (2018: available-for-sale financial assets); and
- financial instruments measured at fair value through profit and loss.

BASIS OF CONSOLIDATION

The consolidated financial statements of the Banking Group comprise the financial statements of the Bank and all its subsidiaries. An entity, including a structured entity, is considered a subsidiary of the group when we determine that the Bank has control over the entity. Control exists when the Banking Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. We assess power by examining existing rights that give the Banking Group the current ability to direct the relevant activities of the entity. We have eliminated, on consolidation, the effect of all transactions between entities in the Banking Group.

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the relevant functional currency at the exchange rate prevailing at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the relevant spot rate. Any foreign currency translation gains or losses that arise are included in profit or loss in the period they arise.

We measure translation differences on non-monetary items at fair value through profit or loss and report them as part of the fair value gain or loss on these items. We include any translation differences on non-monetary items classified as investment securities measured at fair value through other comprehensive income in the investment securities revaluation reserve in equity.

KEY JUDGEMENTS AND ESTIMATES

In the process of applying the Banking Group's accounting policies, management has made a number of judgements and applied estimates and assumptions about future events. Further information on the key judgements and estimates that we consider material to the financial statements are contained within the notes to the financial statements.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD

NZ IFRS 9 *FINANCIAL INSTRUMENTS* (NZ IFRS 9)

The Banking Group has applied NZ IFRS 9 from 1 October 2018 (with the exception of the 'own credit' requirements relating to financial liabilities designated as measured at fair value, which were early adopted by the Banking Group effective from 1 October 2013). In addition, the Banking Group chose to early adopt *Prepayment Features with Negative Compensation* (Amendment to NZ IFRS 9) effective from 1 October 2018. NZ IFRS 9 provides an accounting policy choice, which the Banking Group has taken in the current period, to continue to apply the NZ IAS 39 hedge accounting requirements until the International Accounting Standards Board's (IASB) ongoing project on macro hedge accounting is completed.

NZ IFRS 9 and Amendment to NZ IFRS 9 stipulate new requirements for the impairment of financial assets, classification and measurement of financial assets and financial liabilities and general hedge accounting. Details of the key requirements are outlined within the Financial Assets and Financial Liabilities sections on pages 16 and 29 respectively.

NZ IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS* (NZ IFRS 15)

The Banking Group adopted NZ IFRS 15 from 1 October 2018 which resulted in changes in accounting policies and adjustments to amounts recognised in the consolidated financial statements. The standard requires identification of distinct performance obligations within a contract, and allocation of the transaction price of the contract to those performance obligations. Revenue is then recognised as each performance obligation is satisfied. The standard also provides guidance on whether an entity is acting as a principal or an agent which impacts the presentation of revenue on a gross or net basis.

The Banking Group has assessed all revenue streams existing at the date of transition to the new standard and determined that the impact of NZ IFRS 15 is immaterial given the majority of the Banking Group's revenues are outside the scope of the standard. The Banking Group has adopted NZ IFRS 15 retrospectively including restatement of prior period comparatives.

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2019, and have not been applied by the Banking Group in preparing these financial statements.

The Banking Group has identified five standards where this applies to the Banking Group and further details are set out below:

GENERAL HEDGE ACCOUNTING

NZ IFRS 9 introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging financial and non-financial risks. NZ IFRS 9 provides the Banking Group with an accounting policy choice to continue to apply the NZ IAS 39 hedge accounting requirements until the IASB's ongoing project on macro hedge accounting is completed. The Banking Group currently applies the hedge accounting requirements of NZ IAS 39.

NZ IFRS 16 *LEASES* (NZ IFRS 16)

The Banking Group will adopt NZ IFRS 16 on 1 October 2019 replacing the previous standard NZ IAS 17 *Leases* (NZ IAS 17). NZ IFRS 16 primarily impacts the Banking Group's property and technology leases which were previously classified as operating leases. Under NZ IAS 17, operating leases were not recognised on the balance sheet and rent payments were expensed over the lease term.

Under NZ IFRS 16, lessees must recognise all leases (except for leases of low value assets and short term leases) on the balance sheet under a single accounting model. Accordingly, the Banking Group will recognise its right to use an underlying leased asset over the lease term, as a right-of-use (ROU) asset, and its obligation to make lease payments as a lease liability. In the income statement, the Banking Group will recognise depreciation expense on the ROU asset and interest expense on the lease liability. As a result, lease expenses will be higher in the early periods of a lease and lower in the later periods of the lease compared to the previous standard where expenses were constant over the lease term. Cumulative expenses over the life of a lease will not change.

NZ IFRS 16 only has minor impacts on the Banking Group's lessor arrangements in relation to sale-leaseback transactions which will be implemented prospectively.

The Banking Group will apply the modified retrospective transition approach whereby initial lease liabilities are recognised based on the present value of remaining lease payments as of the transition date. The initial ROU asset recognised for certain large commercial and retail leases are measured as if NZ IFRS 16 had always been applied to the leases. For all other leases, the initial ROU asset is measured as equal to the initial lease liability. Based on this transition approach, the Banking Group expects to recognise an increase in liabilities of NZ$332 million and an increase in assets of NZ$308 million. This is expected to result in a reduction to opening retained earnings of NZ$17 million and an increase in deferred tax assets of NZ$7 million as of 1 October 2019. Comparative information from prior periods will not be restated.

The implementation of NZ IFRS 16 requires management to make certain key judgements including the determination of lease terms, discount rates and identifying arrangements that contain a lease. These estimates may be refined as the Banking Group finalises its implementation of the standard in the first half of the 2020 financial year.

NZ IFRIC INTERPRETATION 23 *UNCERTAINTY OVER INCOME TAX TREATMENTS* (NZ IFRIC 23)

In August 2017, the External Reporting Board (XRB) issued NZ IFRIC 23. NZ IFRIC 23 clarifies application and recognition and measurement requirements in NZ IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. NZ IFRIC 23 will apply to the Banking Group from 1 October 2019, and is not expected to have a material impact on the Banking Group.

REVISED CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

In May 2018, the XRB issued a revised Conceptual Framework for Financial Reporting. The new Framework includes updated definitions and criteria for the recognition and derecognition of assets and liabilities. Additionally it introduces new concepts on measurement, including factors to consider when selecting a measurement basis. The revised Conceptual Framework for Financial Reporting will apply to the Banking Group from 1 October 2020 and is not expected to have a material impact on the Banking Group.

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

INTEREST RATE BENCHMARK REFORM

Interbank offered rates (IBORs), such as LIBOR are a key reference rate for derivative, loans and securities for global financial markets. In response to concerns about the transparency and liquidity of IBORs, regulators in a number of jurisdictions across the globe are well advanced in developing benchmark rates to phase out and replace IBORs, these projects are collectively known as 'IBOR Reform'. The IASB are considering the financial reporting implications of IBOR reform which is expected to impact elements of financial instrument accounting, including hedge accounting, loan modifications, fair value methodologies and disclosures.

The IASB project is split into two phases: Phase 1 deals with pre-placement issues (issues affecting financial reporting in the period before the replacement of IBORs); and Phase 2 deals with replacement issues (issues affecting financial reporting when existing IBORs are replaced).

In September 2019, the IASB issued a final standard, Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7, which focuses on 'pre-rate replacement issues' and provides exceptions to specific hedge accounting requirements under IAS 39 and IFRS 9 so that entities will be able to apply those hedge accounting requirements under an assumption that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. In October 2019, XRB adopted these amendments in XRB amending standard *Interest Rate Benchmark Reform*.

Although the Banking Group anticipates the new standard, once adopted, will provide certain relief in relation to hedge accounting requirements, for 30 September 2019 reporting purposes, it has considered the existing portfolio of hedge accounted relationships in light of:

- the significant uncertainty surrounding the methods and timing of transition away from IBORs; and
- ongoing application and reliance in capital markets on IBORs for financial instrument pricing.

As a result of these factors, the Banking Group has concluded that continuation of hedge accounting relationships for potentially impacted hedge relationships remains appropriate. The Banking Group is considering the new standard which is effective on 1 October 2020 but may be adopted earlier.

2. OPERATING INCOME

	Note	2019 NZ$m	2018 NZ$m
Net interest income			
Interest income by type of financial asset			
Financial assets at amortised cost		6,062	5,986
Trading securities		203	240
Investment securities		157	159
Financial assets at fair value through profit or loss		1	5
Interest income		6,423	6,390
Interest expense by type of financial liability			
Financial liabilities at amortised cost		(3,134)	(3,168)
Financial liabilities designated at fair value through profit or loss		(45)	(72)
Interest expense		(3,179)	(3,240)
Net interest income		3,244	3,150
Other operating income			
(i) Fee and commission income			
Lending fees		33	32
Non-lending fees		796	795
Commissions		65	46
Funds management income		257	250
Fee and commission income		1,151	1,123
Fee and commission expense		(485)	(463)
Net fee and commission income		666	660
(ii) Other income			
Net foreign exchange earnings and other financial instruments income		117	250
Loss on sale of mortgages to the NZ Branch		-	(1)
Gain on UDC terminated transaction		-	20
Insurance proceeds		-	20
Sale of OnePath	26	66	-
Sale of investment in Paymark Limited (Paymark)	26	39	-
Other		27	23
Other income		249	312
Other operating income		915	972
Net income from insurance business		27	149
Share of associates' profit		4	5
Operating income		4,190	4,276

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest income and expense

We recognise interest income and expense for all financial instruments, including those classified as held for trading, assets measured at fair value through other comprehensive income or designated at fair value through profit or loss in net interest income. For assets held at amortised cost we use the effective interest rate method to calculate amortised cost. The effective interest rate is the rate that discounts the stream of estimated future cash receipts or payments over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. For assets subject to prepayment, we determine their expected life on the basis of historical behaviour of the particular asset portfolio - taking into account contractual obligations and prepayment experience.

We recognise fees and costs, which form an integral part of the financial instruments (for example, loan origination fees and costs), using the effective interest rate method. This is presented as part of interest income or expense depending on whether the underlying financial instrument is a financial asset or financial liability.

OTHER OPERATING INCOME

Fee and commission income

We recognise fees or commissions:

- that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) when the significant act has been completed; and
- charged for providing ongoing services (for example, maintaining and administering existing facilities, funds management services) as income over the period the service is provided.

Net foreign exchange earnings and other financial instruments income

We recognise the following as net foreign exchange earnings and other financial instruments income:

- exchange rate differences arising on the settlement of monetary items and translation differences on monetary items translated at rates different to those at which they were initially recognised;
- fair value movements (excluding realised and accrued interest) on derivatives that we use to manage interest rate and foreign exchange risk on funding instruments not designated as accounting hedges;
- the ineffective portions of fair value hedges and cash flow hedges;
- immediately upon sale or repayment of a hedged item, the unamortised fair value adjustments in items designated as fair value hedges and amounts accumulated in equity related to designated cash flow hedges;
- fair value movements on financial assets and financial liabilities designated at fair value through profit or loss or held for trading; and
- amounts released from the investment securities revaluation reserve in equity when a debt instrument classified as FVOCI is sold.

NET INCOME FROM INSURANCE BUSINESS

We recognise:

- premiums with a regular due date as income on an accruals basis;
- claims on an accruals basis once our liability to the policyholder has been confirmed under the terms of the contract; and
- change in life insurance contract asset, net of liability for reinsurance, under the Margin of Service (MoS) model.

SHARE OF ASSOCIATES' PROFIT

The equity method is applied to accounting for associates in the consolidated financial statements. Under the equity method, the Banking Group's share of the after tax results of associates is included in the income statement and the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

3. OPERATING EXPENSES

	2019 NZ$m	2018 NZ$m
Personnel		
Salaries and related costs	858	820
Superannuation costs	29	29
Other	35	42
Personnel	922	891
Premises		
Rent	81	82
Other	72	71
Premises	153	153
Technology		
Depreciation and amortisation	48	47
Licences and outsourced services	116	126
Other	41	52
Technology (excluding personnel)	205	225
Other		
Advertising and public relations	47	43
Professional fees	64	45
Freight, stationery, postage and communication	44	44
Charges from Ultimate Parent Bank	60	52
Other	113	64
Other	328	248
Operating expenses	1,608	1,517

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

Operating expenses are recognised as services are provided to the Banking Group over the period in which an asset is consumed or once a liability is created.

SALARIES AND RELATED COSTS – ANNUAL LEAVE, LONG SERVICE LEAVE AND OTHER EMPLOYEE BENEFITS

Wages and salaries, annual leave, and other employee entitlements expected to be paid or settled within twelve months of employees rendering service are measured at their nominal amounts using remuneration rates that the Banking Group expects to pay when the liabilities are settled.

We accrue employee entitlements relating to long service leave using an actuarial calculation. It includes assumptions regarding staff departures, leave utilisation and future salary increases. The result is then discounted using market yields at the reporting date. The market yields are determined from a blended rate of high quality corporate bonds with terms to maturity that closely match the estimated future cash outflows.

If we expect to pay short term cash bonuses, then a liability is recognised when the Banking Group has a present legal or constructive obligation to pay this amount (as a result of past service provided by the employee) and the obligation can be reliably measured.

4. INCOME TAX

INCOME TAX EXPENSE

Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense recognised in profit or loss:

	2019 NZ$m	2018 NZ$m
Profit before income tax	2,481	2,704
Prima facie income tax expense at 28%	695	757
Tax effect of permanent differences:		
Imputed and non-assessable dividends	(1)	(1)
Sale of OnePath and Paymark	(29)	-
Tax provisions no longer required	(4)	(3)
Non-assessable income and non-deductible expenditure	2	(1)
Subtotal	663	752
Income tax under provided in previous years	(1)	(1)
Income tax expense	662	751
Current tax expense	740	910
Adjustments recognised in the current year in relation to the current tax of previous years	(1)	(1)
Deferred tax income relating to the origination and reversal of temporary differences	(77)	(158)
Income tax expense	662	751
Effective tax rate	26.7%	27.8%

RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

Income tax expense comprises both current and deferred taxes and is based on the accounting profit adjusted for differences in the accounting and tax treatments of income and expenses (that is, taxable income). We recognise tax expense in profit or loss except to the extent to which it relates to items recognised directly in equity and other comprehensive income, in which case we recognise directly in equity or other comprehensive income respectively.

CURRENT TAX EXPENSE

Current tax is the tax we expect to pay on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date. We recognise current tax as a liability (or asset) to the extent that it is unpaid (or refundable).

DEFERRED TAX ASSETS AND LIABILITIES

We account for deferred tax using the balance sheet method. Deferred tax arises because the accounting income is not always the same as the taxable income. This creates temporary differences, which usually reverse over time. Until they reverse, we recognise a deferred tax asset, or liability, on the balance sheet. We measure deferred taxes at the tax rates that we expect will apply to the period(s) when the asset is realised, or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

We offset current and deferred tax assets and liabilities only to the extent that: they relate to income taxes imposed by the same taxation authority; there is a legal right and intention to settle on a net basis; and it is allowed under the tax law of the relevant jurisdiction.

NOTES TO THE FINANCIAL STATEMENTS

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

Dividends	Amount per share	Total dividend NZ$m
Financial Year 2018		
Dividend paid in March 2018	23.9 cents	800
Dividend paid in April 2018	44.8 cents	1,500
Dividend paid in April 2018	31.0 cents	1,500
Dividend paid in September 2018	12.6 cents	800
Dividends paid during the year ended 30 September 2018		4,600
Financial Year 2019		
Dividend paid in March 2019	6.3 cents	400
Dividends paid during the year ended 30 September 2019		400

IMPUTATION CREDIT ACCOUNT

	2019 NZ$m	2018 NZ$m
Imputation credits available	5,660	4,919

The imputation credit balance for the Banking Group includes the imputation credit balance in relation to both the New Zealand resident imputation group and other companies in the Banking Group that are not in the New Zealand resident imputation group. The imputation credit balance available includes imputation credits that will arise from the payment of the amount of provision for income tax as at the reporting date.

6. SEGMENT REPORTING

DESCRIPTION OF SEGMENTS

The Banking Group is organised into three major business segments for segment reporting purposes - Retail, Commercial and Institutional. Centralised back office and corporate functions support these segments. These segments are consistent with internal reporting provided to the chief operating decision maker, being the Bank's Chief Executive Officer.

Comparative data has been adjusted to reflect a change in the methodology for allocating earnings on capital to each segment, and other minor structure changes. While neutral at the Banking Group level, these changes have impacted net interest income, operating expenses and profit after tax at the segment level.

Retail

Retail provides a full range of banking and wealth management services to consumer, private banking and small business banking customers. We deliver our services via our internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centres.

Commercial

Commercial provides a full range of banking services including traditional relationship banking and sophisticated financial solutions through dedicated managers focusing on privately owned medium to large enterprises, the agricultural business segment, government and government related entities.

Institutional

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

- Transaction Banking provides working capital and liquidity solutions including documentary trade, supply chain financing as well as cash management solutions, deposits, payments and clearing.
- Loans & Specialised Finance provides loan products, loan syndication, specialised loan structuring and execution, project and export finance, debt structuring and acquisition finance and corporate advisory.
- Markets provide risk management services on foreign exchange, interest rates, credit, commodities, debt capital markets in addition to managing the Banking Group's interest rate exposure and liquidity position.

Other

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

6. SEGMENT REPORTING (continued)

OPERATING SEGMENTS

	Retail		Commercial		Institutional		Other		Total	
For the year ended 30 September	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m
Net interest income	1,798	1,817	1,057	1,004	344	320	45	9	3,244	3,150
Net fee and commission income										
- Lending fees	16	16	1	1	16	15	-	-	33	32
- Non-lending fees	714	694	16	19	62	73	4	9	796	795
- Commissions	65	46	-	-	-	-	-	-	65	46
- Funds management fees	257	250	-	-	-	-	-	-	257	250
- Fee and commission expense	(485)	(463)	-	-	-	-	-	-	(485)	(463)
Net fee and commission income	567	543	17	20	78	88	4	9	666	660
Other income	7	6	-	1	172	177	70	128	249	312
Net income from insurance business	19	131	-	-	-	-	8	18	27	149
Share of associates' profits	4	5	-	-	-	-	-	-	4	5
Other operating income	597	685	17	21	250	265	82	155	946	1,126
Operating income	2,395	2,502	1,074	1,025	594	585	127	164	4,190	4,276
Operating expenses	(1,078)	(1,032)	(274)	(258)	(216)	(182)	(40)	(45)	(1,608)	(1,517)
Profit before credit impairment and income tax	1,317	1,470	800	767	378	403	87	119	2,582	2,759
Credit impairment (charge) / release	(47)	(50)	(47)	41	(7)	(46)	-	-	(101)	(55)
Profit before income tax	1,270	1,420	753	808	371	357	87	119	2,481	2,704
Income tax expense	(354)	(396)	(211)	(227)	(104)	(100)	7	(28)	(662)	(751)
Profit after income tax	916	1,024	542	581	267	257	94	91	1,819	1,953
Financial position										
Goodwill[1]	1,039	1,109	1,052	1,052	1,069	1,069	-	-	3,160	3,230
Net loans and advances	81,789	76,843	43,464	42,446	7,270	7,166	2	11	132,525	126,466
Customer deposits	73,866	70,259	16,138	16,842	19,232	16,954	-	-	109,236	104,055

1 Including items reclassified as held for sale.

OTHER SEGMENT

The Other segment profit after income tax comprises:

	2019 NZ$m	2018 NZ$m
Central functions[1]	3	8
Technology and Group Centre[2,3]	215	20
Economic hedges	(43)	48
Revaluation of insurance policies from changes in interest rates[3]	(81)	15
Total	94	91

1 Central functions' other income for the year ended 30 September 2018 includes the NZ$20 million insurance proceeds (Note 2 Operating Income) that were received from a member of the Overseas Banking Group.

2 Technology and Group Centre's other income for the year ended 30 September 2019 includes the NZ$66 million gain on sale of OnePath and the NZ$39 million gain on sale of Paymark (Note 2 Operating Income).

3 Amounts for the year ended 30 September 2019 include the transfer of NZ$86 million of accumulated after tax gains previously recognised in revaluation of insurance policies from changes in interest rates to Technology and Group Centre. These gains were transferred upon the sale of OnePath.

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL ASSETS

CLASSIFICATION AND MEASUREMENT

Financial assets - general

There are three measurement classifications for financial assets under NZ IFRS 9: amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). Financial assets are classified into these measurement classifications on the basis of two criteria:

- the business model within which the financial asset is managed; and
- the contractual cash flow characteristics of the financial asset (specifically whether the contractual cash flows represent solely payments of principal and interest).

The resultant financial asset classifications are as follows:

- Amortised cost: financial assets with contractual cash flows that comprise solely payments of principal and interest and which are held in a business model whose objective is to collect their cash flows;
- FVOCI: financial assets with contractual cash flows that comprise solely payments of principal and interest only and which are held in a business model whose objective is to collect their cash flows or to sell the assets; and
- FVTPL: any other financial assets not falling into the categories above are measured at FVTPL.

Fair Value Option for Financial Assets

A financial asset may be irrevocably designated at FVTPL on initial recognition when the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Impact of the transition to NZ IFRS 9 from 1 October 2018

The following table summarises the changes to the measurement classifications on adoption of NZ IFRS 9:

Balance sheet presentation	NZ IAS 39	NZ IFRS 9
Net loans and advances[1]	Loans and receivables	Amortised cost
Investment securities[2] (2018: Available-for-sale assets (AFS))	AFS	FVOCI

1 Refer to Note 12 Allowance for expected credit losses for the change in the carrying amounts on transition to NZ IFRS 9 as at 1 October 2018.
2 The carrying amounts did not change on transition to NZ IFRS 9 as at 1 October 2018.

7. CASH AND CASH EQUIVALENTS

	2019 NZ$m	2018 NZ$m
Coins, notes and cash at bank	192	204
Securities purchased under agreements to resell in less than 3 months	297	136
Balances with central banks	1,448	1,734
Settlement balances receivable within 3 months	426	126
Cash and cash equivalents	2,363	2,200

8. TRADING SECURITIES

	2019 NZ$m	2018 NZ$m
Government securities	4,354	4,696
Corporate and financial institution securities	4,588	3,328
Trading securities	**8,942**	8,024

RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

- acquire principally for the purpose of selling in the short-term; or
- hold as part of a portfolio we manage for short-term profit making.

We recognise purchases and sales of trading securities on trade date:

- initially, we measure them at fair value; and
- subsequently, we measure them in the balance sheet at their fair value with any revaluation recognised in the profit or loss.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when applying the valuation techniques used to measure the fair value of trading securities not valued using quoted market prices. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value	Assets 2019 NZ$m	Liabilities 2019 NZ$m	Assets 2018 NZ$m	Liabilities 2018 NZ$m
Derivative financial instruments - held for trading	10,734	(9,755)	7,746	(7,023)
Derivative financial instruments - designated in hedging relationships	932	(1,287)	340	(1,072)
Derivative financial instruments	**11,666**	**(11,042)**	8,086	(8,095)

FEATURES

Derivative financial instruments are contracts:

- whose value is derived from an underlying price index (or other variable) defined in the contract – sometimes the value is derived from more than one variable;
- that require little or no initial net investment; and
- that are settled at a future date.

Movements in the price of the underlying variables, which cause the value of the contract to fluctuate, are reflected in the fair value of the derivative.

PURPOSE

The Banking Group's derivative financial instruments have been categorised as follows:

Trading	Derivatives held in order to: • meet customer needs for managing their own risks. • manage risk in the Banking Group that are not in a designated hedge accounting relationship. • undertake market making and positioning activities to generate profits from short-term fluctuations in prices or margins.
Designated in hedging relationships	Derivatives designated into hedge accounting relationships in order to minimise profit or loss volatility by matching movements to underlying positions relating to: • hedges of the Banking Group's exposures to interest rate risk and currency risk. • hedges of other exposures relating to non-trading positions.

TYPES

The Banking Group offers and uses four different types of derivative financial instruments:

Forwards	A contract documenting the rate of interest, or the currency exchange rate, to be paid or received on a notional principal amount at a future date.
Futures	An exchange traded contract in which the parties agree to buy or sell an asset in the future for a price agreed on the transaction date, with a net settlement in cash paid on the future date without physical delivery of the asset.
Swaps	A contract in which one party exchanges one series of cash flows for another.
Options	A contract in which the buyer of the contract has the right - but not the obligation - to buy (known as a "call option") or to sell (known as a "put option") an asset or instrument at a set price on a future date. The seller has the corresponding obligation to fulfil the transaction to sell or buy the asset or instrument if the buyer exercises the option.

RISKS MANAGED

The Banking Group offers and uses the instruments described above to manage fluctuations in the following market factors:

Foreign exchange	Currencies at current or determined rates of exchange.
Interest rate	Fixed or variable interest rates applying to money lent, deposited or borrowed.
Commodity	Soft commodities (that is, agricultural products such as wheat, coffee, cocoa, and sugar) and hard commodities (that is, mined products such as gold, oil and gas).
Credit	Counterparty risk in the event of default.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

The majority of the Banking Group's derivative financial instruments are held for trading. The fair value of derivative financial instruments held for trading are:

Fair value	Assets 2019 NZ$m	Liabilities 2019 NZ$m	Assets 2018 NZ$m	Liabilities 2018 NZ$m
Interest rate contracts				
Forward rate agreements	6	(6)	5	(4)
Futures contracts	10	(10)	7	(10)
Swap agreements	6,059	(4,671)	4,242	(3,920)
Options purchased	3	-	3	-
Options sold	-	-	-	(1)
Total	6,078	(4,687)	4,257	(3,935)
Foreign exchange contracts				
Spot and forward contracts	2,264	(1,785)	1,179	(889)
Swap agreements	2,340	(3,225)	2,248	(2,146)
Options purchased	35	(1)	34	(3)
Options sold	1	(35)	2	(24)
Total	4,640	(5,046)	3,463	(3,062)
Commodity contracts and credit default swaps	16	(22)	26	(26)
Derivative financial instruments - held for trading	10,734	(9,755)	7,746	(7,023)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

The Banking Group uses two types of hedge accounting relationships:

	Fair value hedge	Cash flow hedge
Objective of this hedging arrangement	To hedge our exposure to changes to the fair value of a recognised asset or liability or unrecognised firm commitment caused by interest rate or foreign currency movements.	To hedge our exposure to variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecast transaction caused by interest rate, foreign currency and other price movements.
Recognition of effective hedge portion	The following are recognised in profit or loss at the same time: • all changes in the fair value of the underlying item relating to the hedged risk; and • the change in the fair value of the derivatives.	We recognise the effective portion of changes in the fair value of derivatives designated as a cash flow hedge in the cash flow hedge reserve.
Recognition of ineffective hedge portion	Recognised immediately in other operating income.	
If a hedging instrument expires, or is sold, terminated, or exercised; or no longer qualifies for hedge accounting	When we recognise the hedged item in profit or loss, we recognise the related unamortised fair value adjustment in profit or loss. This may occur over time if the hedged item is amortised to profit or loss as part of the effective yield over the period to maturity.	Only when we recognise the hedged item in profit or loss is the amount previously deferred in the cash flow hedge reserve transferred to profit or loss.
Hedged item sold or repaid	We recognise the unamortised fair value adjustment immediately in profit or loss.	Amounts accumulated in equity are transferred immediately to profit or loss.

As outlined in Note 1, the Banking Group has continued to apply the NZ IAS 39 hedge accounting requirements until the IASB's ongoing project on macro hedge accounting is completed. However, new hedge disclosures are required in this period under NZ IFRS 7 *Financial Instruments: Disclosures* (NZ IFRS 7) which are presented below. The presentation of derivatives information for 2018 has not been amended.

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The fair value of derivative financial instruments designated in hedging relationships are:

	2019			2018	
	Nominal amount NZ$m	Assets NZ$m	Liabilities NZ$m	Assets NZ$m	Liabilities NZ$m
Fair value hedges					
Interest rate swap agreements	25,956	365	(727)	54	(819)
Cash flow hedges					
Interest rate swap agreements	37,730	567	(560)	286	(253)
Derivative financial instruments - designated in hedging relationships	63,686	932	(1,287)	340	(1,072)

The maturity profile of the nominal amounts of our hedging instruments held at 30 September 2019 is:

Nominal amount		Average rate	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
Fair value hedges							
Interest rate	Interest rate	1.88%	-	1,860	15,587	8,509	25,956
Cash flow hedges							
Interest rate	Interest rate	2.22%	531	3,010	30,561	3,628	37,730

The impact of ineffectiveness from our designated hedge relationships by type of hedge relationship and type of risk being hedged are:

	Ineffectiveness			Amount reclassified
2019	Change in value of hedging instrument NZ$m	Change in value of hedged item NZ$m	Hedge ineffectiveness recognised in profit and loss NZ$m	from the cash flow hedge reserve to profit and loss NZ$m
Fair value hedges[1]				
Interest rate	459	(464)	(5)	-
Cash flow hedges[1]				
Interest rate	(6)	7	1	14

1 All instruments are held within derivative financial instruments.

Hedge ineffectiveness recognised is classified within other operating income. Reclassification adjustments to the statement of comprehensive income are recognised within net interest income.

Hedged items in relation to the Banking Group's fair value hedges for 30 September 2019 are as follows:

			Carrying amount		Accumulated fair value hedge adjustments on the hedged item	
	Balance sheet presentation	Hedged risk	Assets NZ$m	Liabilities NZ$m	Assets NZ$m	Liabilities NZ$m
Fixed rate loans and advances	Net loans and advances	Interest rate	1,122	-	-	-
Fixed rate debt issuances	Debt issuances	Interest rate	-	(18,784)	-	(357)
Fixed rate investment securities (FVOCI)[1]	Investment securities	Interest rate	6,745	-	259	-
Total			7,867	(18,784)	259	(357)

1 The carrying amount of debt instruments at fair value through other comprehensive income does not include the fair value hedge adjustment as the hedged assets are measured at fair value. The accounting for the hedge relationship results in a transfer from other comprehensive income to the income statement.

The cumulative amount of fair value hedge adjustments relating to ceased hedge relationships remaining on the balance sheet is less than NZ$0.1 million.

Hedged items in relation to the Banking Group's cash flow hedges for 30 September 2019 are as follows:

		Cash flow hedge reserve	
	Hedged risk	Continuing hedges NZ$m	Discontinued hedges NZ$m
Floating rate loans and advances	Interest rate	516	(1)
Floating rate customer deposits	Interest rate	(465)	(13)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below details the reconciliation of the cash flow hedge by risk type:

	Interest rate NZ$m
Balance at 1 October 2018	22
Fair value losses	(7)
Transferred to income statement	14
Income taxes	(2)
Balance at 30 September 2019	27

2018 Disclosure

The impact recognised in profit or loss arising from derivative financial instruments designated in hedge accounting relationships, is as follows:

	Hedge accounting type	2018 NZ$m
Gain/(loss) recognised in other operating income		
Hedged item	Fair value	212
Hedging instrument	Fair Value	(221)

RECOGNITION AND MEASUREMENT

Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is: positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Banking Group's contractual obligations are discharged, cancelled or expired.
Impact on the income statement	How we recognise gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated into a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss. For an instrument designated into a hedging relationship the recognition of gains or losses depends on the nature of the item being hedged. Refer to the previous table on page 19 for profit or loss treatment depending on the hedge type. Sources of hedge ineffectiveness may arise from basis risk and differences in discounting between the hedged items and the hedging instruments. The hedging instruments are discounted using Overnight Index Swaps discount curves which are not applied to the hedged items.
Hedge effectiveness	To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met: • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). The Banking Group monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select the valuation techniques used to measure the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENT SECURITIES

Period	Security type	2019 Government securities NZ$m	2019 Corporate and financial institution securities NZ$m	2019 Equity securities NZ$m	2019 Total NZ$m	2018 Government securities NZ$m	2018 Corporate and financial institution securities NZ$m	2018 Equity securities NZ$m	2018 Total NZ$m
Less than 3 months		85	80	-	165	110	19	-	129
Between 3 and 12 months		119	307	-	426	616	162	-	778
Between 1 and 5 years		3,263	1,812	-	5,075	3,134	1,831	-	4,965
Greater than 5 years		1,334	26	-	1,360	458	171	-	629
No maturity		-	-	1	1	-	-	1	1
Total		4,801	2,225	1	7,027	4,318	2,183	1	6,502
Carried on balance sheet at:									
FVOCI[1]		4,801	2,225	1	7,027	-	-	-	-
Available-for-sale assets[1]		-	-	-	-	4,318	2,183	1	6,502
Total		4,801	2,225	1	7,027	4,318	2,183	1	6,502

1 On adoption of NZ IFRS 9 on 1 October 2018, the classification and measurement of financial assets were revised. The available-for-sale classification used in comparative periods ceases to exist under NZ IFRS 9 and a new classification of investment securities was introduced. Refer to Note 1 for further details.

RECOGNITION AND MEASUREMENT

Policy applicable from 1 October 2018

Investment securities are those financial assets in security form (i.e. transferable debt or equity instruments) that are not held for trading purposes. By way of exception, bills of exchange (a form of security/transferable instrument) which are used to facilitate the Banking Group's customer lending activities are classified as loans and advances (rather than investment securities) to better reflect the substance of the arrangement.

Non-trading equity instruments may be designated at FVOCI on an instrument by instrument basis. If this election is made, gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. However, gains or losses may be reclassified within equity.

Assets disclosed as investment securities are subject to the general classification and measurement policy for financial assets outlined at the commencement of the Banking Group's Financial Asset disclosures on page 16.

Policy applicable prior to 1 October 2018

AFS assets comprise non-derivative financial assets which we designate as AFS since we do not hold them principally for trading purposes. They include both equity and debt securities. AFS assets are initially recognised at fair value plus transaction costs and are revalued at least bi-annually. On revaluation, we include movements in fair value within the available-for-sale revaluation reserve in equity, except for certain items which are recognised directly in profit or loss, being interest on debt securities, dividends received, foreign exchange on debt securities and impairment charges.

When we sell the asset, any cumulative gain or loss from the available-for-sale revaluation reserve is recognised in profit or loss.

At each reporting date, we assess whether any AFS assets are impaired. We assess the impairment of any debt securities if an event has occurred which will have a negative impact on the asset's estimated cash flows. For equity securities, we assess if there is a significant or prolonged decline in fair value below cost.

If an AFS asset is impaired, then we remove the cumulative loss related to that asset from the available-for-sale revaluation reserve. We then recognise it in profit or loss for:

- debt instruments, as a credit impairment expense; and
- equity instruments, as a negative impact in other operating income.

We recognise any later reversals of impairment on debt securities in the profit or loss through the credit impairment charge line. However, we do not make any reversals of impairment for equity securities. To the extent previously impaired equity securities recover in value, gains are recognised directly in equity.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select valuation techniques used to measure the fair value of assets not valued using quoted market prices, particularly the selection of valuation inputs that are not readily observable. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

11. NET LOANS AND ADVANCES

The following table provides details of net loans and advances for the Banking Group:

	Note	2019 NZ$m	2018 NZ$m
Overdrafts		927	905
Credit cards		1,569	1,644
Term loans - housing		84,007	78,395
Term loans - non-housing		44,586	44,169
Finance lease and hire purchase receivables		1,863	1,791
Subtotal		132,952	126,904
Unearned income		(237)	(239)
Capitalised brokerage/mortgage origination fees		307	313
Gross loans and advances		133,022	126,978
Allowance for expected credit losses	12	(497)	(512)
Net loans and advances		132,525	126,466
Residual contractual maturity:			
- within one year		27,816	26,896
- after more than one year		104,709	99,570
Net loans and advances		132,525	126,466

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ$739 million as at 30 September 2019 (2018: NZ$2,210 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

RECOGNITION AND MEASUREMENT

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are facilities the Banking Group provides directly to customers or through third party channels.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the issue of the loan or advance, which are primarily brokerage/mortgage origination fees which we amortise over the estimated life of the loan. Subsequently, we then measure loans and advances at amortised cost using the effective interest rate method, net of any provision for credit impairment.

We classify contracts to lease assets and hire purchase agreements as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party.

The Banking Group enters into transactions in which it transfers financial assets that are recognised on its balance sheet. When the Banking Group retains substantially all of the risks and rewards of the transferred assets, the transferred assets remain on the Banking Group's balance sheet, however if substantially all the risks and rewards are transferred, the Banking Group derecognises the asset.

If the risks and rewards are partially retained and control over the asset is lost, then the Banking Group derecognises the asset. If control over the asset is not lost, the Banking Group continues to recognise the asset to the extent of its continuing involvement.

We separately recognise the rights and obligations retained, or created, in the transfer as assets and liabilities as appropriate.

From 1 October 2018, assets disclosed as net loans and advances are subject to the general classification and measurement policy for financial assets outlined at the commencement of the Banking Group's Financial Asset disclosures on page 16. Additionally, expected credit losses associated with loans and advances at amortised cost are recognised and measured in accordance with the accounting policies outlined in Note 12.

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES

As described in Note 1, the Banking Group adopted NZ IFRS 9 effective from 1 October 2018 which resulted in the application of an expected credit loss (ECL) model for measuring impairment of financial assets and amendments to the presentation of credit impairment information for the current year. Comparative information has not been restated.

ALLOWANCE FOR EXPECTED CREDIT LOSSES – IMPACT OF THE TRANSITION TO NZ IFRS 9

The table below reconciles the closing collective provision for credit impairment for financial assets determined in accordance with NZ IAS 39, and provisions for loan commitments and financial guarantee contracts in accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as at 30 September 2018, and the opening provisions for credit impairment determined in accordance with NZ IFRS 9 as at 1 October 2018.

Collective provision reconciliation	Net loans and advances NZ$m	Off-balance sheet credit related commitments NZ$m	Total NZ$m
As at 30 September 2018	311	71	382
Impact on transition to NZ IFRS 9[1]	60	12	72
As at 1 October 2018	371	83	454
Collective credit impairment charge	29	3	32
As at 30 September 2019	400	86	486

[1] The increase in allowance for expected credit losses resulted in an increase in deferred tax assets of NZ$20 million and a decrease in retained earnings of NZ$52 million..

ALLOWANCE FOR EXPECTED CREDIT LOSSES – BALANCE SHEET

The following tables present the movement in the allowance for ECL for the year ended 30 September 2019.

	Net loans and advances		Off-balance sheet credit related commitments[1]		Total	
Provision for credit impairment	30 Sep 19 NZ$m	30 Sep 18 NZ$m	30 Sep 19 NZ$m	30 Sep 18 NZ$m	30 Sep 19 NZ$m	30 Sep 18 NZ$m
Individual provision[2]	97	130	11	-	108	130
Collective provision[3]	400	311	86	71	486	382
Total provision for credit impairment	497	441	97	71	594	512

[1] Individual and collective provision relating to off-balance sheet credit related commitments is included in provisions from 1 October 2018.
[2] Individual provision comprises Stage 3 ECL assessed individually from 1 October 2018.
[3] Collective provision comprises Stage 1, 2 and 3 ECL assessed collectively from 1 October 2018.

Net loans and advances - at amortised cost

Allowance for ECL is included in net loans and advances.

			Stage 3		
	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	160	171	40	130	501
Transfer between stages	29	(40)	3	8	-
New and increased provisions (net of collective provision releases)	(25)	63	(1)	121	158
Write-backs	-	-	-	(48)	(48)
Recoveries of amounts previously written off	-	-	-	(23)	(23)
Credit impairment charge	4	23	2	58	87
Bad debts written-off (excluding recoveries)	-	-	-	(106)	(106)
Add back recoveries of amounts previously written off	-	-	-	23	23
Discount unwind	-	-	-	(8)	(8)
As at 30 September 2019	164	194	42	97	497

Off-balance sheet credit related commitments - undrawn and contingent facilities

Allowance for ECL is included in other provisions.

As at 1 October 2018	59	22	2	-	83
Transfer between stages	5	(5)	-	-	-
New and increased provisions (net of collective provision releases)	(4)	7	-	11	14
Credit impairment charge	1	2	-	11	14
As at 30 September 2019	60	24	2	11	97

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

Explanation of how changes in the gross carrying amounts of gross loans and advances contributed to changes in loss allowance

Overall, loss allowances on gross loans and advances have remained stable at approximately 0.4% of gross loans and advances. Loss allowances have increased by NZ$10 million (2%) driven by an increase in the proportion of gross loans and advances in Stage 2 and Stage 3, offset by a net decrease in Stage 3 individually assessed exposures as a result of amounts written-off.

2018 Provision for credit impairment disclosure under NZ IAS 39

The below disclosure does not reflect the adoption of NZ IFRS 9 and is prepared under the requirements of the previous NZ IAS 39. All provisions for credit impairment were recognised in net loans and advances until 30 September 2018.

Provision for credit impairment for the year ended 30 September 2018	Net loans and advances NZ$m	Off-balance sheet credit related commitments NZ$m	Total NZ$m
Individual provision			
Balance at start of year	152	-	152
New and increased provisions	213	-	213
Write-backs	(83)	-	(83)
Bad debts written off (excluding recoveries)	(149)	-	(149)
Discount unwind	(3)	-	(3)
Total individual provision	130	-	130
Collective provision			
Balance at start of year	343	84	427
Release to profit or loss	(32)	(13)	(45)
Total collective provision	311	71	382
Total provision for credit impairment	441	71	512

CREDIT IMPAIRMENT CHARGE – INCOME STATEMENT

Credit impairment charge analysis under NZ IFRS 9.

	2019 NZ$m
New and increased provisions	
- Collectively assessed	32
- Individually assessed	140
Write-backs	(48)
Recoveries of amounts previously written-off	(23)
Total credit impairment charge	101

2018 credit impairment charge analysis under NZ IAS 39

The below disclosure does not reflect the adoption of NZ IFRS 9 and is prepared under the requirements of the previous NZ IAS 39.

	2018 NZ$m
New and increased provisions	213
Write-backs	(83)
Recoveries of amounts previously written-off	(30)
Individual credit impairment charge	100
Collective credit impairment release	(45)
Total credit impairment charge	55

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

Policy applicable from 1 October 2018

EXPECTED CREDIT LOSS IMPAIRMENT MODEL
The measurement of expected credit losses reflects an unbiased, probability weighted prediction which evaluates a range of scenarios and takes into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Expected credit losses are either measured over 12 months or the expected lifetime of the financial asset, depending on credit deterioration since origination, according to the following three-stage approach:

- Stage 1: At the origination of a financial asset, and where there has not been a significant increase in credit risk (SICR) since origination, an allowance equivalent to 12 months ECL is recognised reflecting the expected credit losses resulting from default events that are possible within the next 12 months from the reporting date. For instruments with a remaining maturity of less than 12 months, expected credit losses are estimated based on default events that are possible over the remaining time to maturity.
- Stage 2: Where there has been a significant increase in credit risk since origination, an allowance equivalent to lifetime ECL is recognised reflecting expected credit losses resulting from all possible default events over the expected life of a financial instrument. If credit risk were to improve in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure returns to a Stage 1 classification and a 12 month ECL applies.
- Stage 3: Where there is objective evidence of impairment, an allowance equivalent to lifetime ECL is recognised.

Expected credit losses are estimated on a collective basis for exposures in Stage 1 and Stage 2, and on either a collective or individual basis when transferred to Stage 3.

MEASUREMENT OF EXPECTED CREDIT LOSSES
ECL is calculated as the product of the following credit risk factors at a facility level, discounted to incorporate the time value of money:

- Probability of default (PD) – the estimate of the likelihood that a borrower will default over a given period;
- Exposure at default (EAD) – the expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional drawdowns and accrued interest; and
- Loss given default (LGD) – the expected loss in the event of the borrower defaulting, expressed as a percentage of the facility's EAD, taking into account direct and indirect recovery costs.

These credit risk factors are adjusted for current and forward looking information through the use of macro-economic variables.

EXPECTED LIFE
When estimating ECL for exposures in Stage 2 and 3, the Banking Group considers the expected lifetime over which it is exposed to credit risk.

For non-retail portfolios, the Banking Group uses the maximum contractual period as the expected lifetime for non-revolving credit facilities. For non-retail revolving credit facilities, such as corporate lines of credit, the expected life reflects the Banking Group's contractual right to withdraw a facility as part of a contractually agreed annual review, after taking into account the applicable notice period.

For retail portfolios, the expected lifetime is determined using behavioural term, taking into account expected repayment behaviour and substantial modifications.

DEFINITION OF DEFAULT, CREDIT IMPAIRED AND WRITE-OFFS
The definition of default used in measuring expected credit losses is aligned to the definition used for internal credit risk management purposes across all portfolios. This definition is also in line with the regulatory definition of default. Default occurs when there are indicators that a debtor is unlikely to fully satisfy contractual credit obligations to the Banking Group, or the exposure is 90 days past due.

Financial assets, including those that are well secured, are considered credit impaired for financial reporting purposes when they default.

When there is no realistic probability of recovery, loans are written off against the related impairment allowance on completion of the Banking Group's internal processes and when all reasonably expected recoveries have been collected. In subsequent periods, any recoveries of amounts previously written-off are credited to credit impairment charge in the income statement.

MODIFIED FINANCIAL ASSETS
If the terms of a financial asset are modified or an existing financial asset is replaced with a new one for either credit or commercial reasons, an assessment is made to determine if the changes to the terms of the existing financial asset are considered substantial. This assessment considers both changes in cash flows arising from the modified terms as well as changes in the overall instrument risk profile; for example, changes in the principal (credit limit), term, or type of underlying collateral. Where a modification is considered non-substantial, the existing financial asset is not derecognised and its date of origination continues to be used to determine SICR. Where a modification is considered substantial, the existing financial asset is derecognised and a new financial asset is recognised at its fair value on the modification date, which also becomes the date of origination used to determine SICR for this new asset.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

SIGNIFICANT INCREASE IN CREDIT RISK

Stage 2 assets are those that have experienced a SICR since origination. In determining what constitutes a SICR, the Banking Group considers both qualitative and quantitative information:

- Internal credit rating grade
  For the majority of portfolios, the primary indicator of a SICR is a significant deterioration in the internal credit rating grade of a facility since origination and is measured by application of thresholds.

  For non-retail portfolios, a SICR is determined by comparing the Customer Credit Rating (CCR) applicable to a facility at reporting date to the CCR at origination of that facility. A CCR is assigned to each borrower which reflects the probability of default of the borrower and incorporates both borrower and non-borrower specific information, including forward looking information. CCRs are subject to review at least annually or more frequently when an event occurs which could affect the credit risk of the customer.

  For retail portfolios, a SICR is determined by comparing each facility's scenario weighted lifetime probability of default at the reporting date to the scenario weighted lifetime probability of default at origination. The scenario weighted lifetime probability of default may increase significantly if:

  - there has been a deterioration in the economic outlook, or an increase in economic uncertainty; or
  - there has been a deterioration in the customer's overall credit position, or ability to manage their credit obligations.

- Backstop criteria
  The Banking Group uses 30 days past due arrears as a backstop criteria for both non-retail and retail portfolios. For retail portfolios only, facilities are required to demonstrate three to six months of good payment behaviour prior to being allocated back to Stage 1.

FORWARD LOOKING INFORMATION

Forward looking information is incorporated into both our assessment of whether a financial asset has experienced a significant increase in credit risk since its initial recognition and in our estimate of ECL. In applying forward looking information for estimating ECL, the Banking Group considers four probability-weighted forecast economic scenarios as follows:

- Base case scenario
  The base case scenario is our view of the most likely future macro-economic conditions. It reflects management's assumptions used for strategic planning and budgeting, and also informs the Banking Group's Internal Capital Adequacy Assessment Process (ICAAP) which is the process the Banking Group applies in strategic and capital planning over a 3 year time horizon;

- Upside and Downside scenarios
  The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic events and uncertainty over the long term horizons; and

- Severe downside scenario
  The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe impact of less likely extremely adverse economic conditions. It reflects macro-economic conditions of a downturn economic event with a probability of occurrence once every 25 years.

The four scenarios are described in terms of macro-economic variables used in the PD, LGD and EAD models (collectively the ECL models) depending on the portfolio and country of the borrower. Examples of the variables include unemployment rates, GDP growth rates, house price indices, commercial property price indices and consumer price indices.

Probability weighting each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario, as well as specific portfolio considerations where required.

Where applicable, adjustments may be made to account for situations where known or expected risks have not been adequately addressed in the modelling process.

ECL Sensitivity

The table below illustrates the impact on the Banking Group's ECL allowance under scenarios where a 100% weighting is applied to both upside and downside scenarios with all other modelling assumptions remaining constant.

	Collective ECL NZ$m	Impact NZ$m
100% upside scenario	371	(115)
100% downside scenario	548	62

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

Policy applicable prior to 1 October 2018

The Banking Group recognises two types of impairment provisions for its loans and advances:
- individual provisions for significant assets that are assessed to be impaired; and
- collective provisions for portfolios of similar assets that are assessed collectively for impairment.

The accounting treatment for each of them is detailed below:

	Individually	Collectively
Assessment	If any impaired loans and advances exceed specified thresholds and an impairment event has been identified, then we assess the need for a provision individually.	To allow for any small value loans and advances where losses may have been incurred but not yet identified, and individually significant loans and advances that we do not assess as impaired, we assess them collectively in pools of assets with similar risk characteristics.
Impairment	Loans and advances are assessed as impaired if we have objective evidence that we may not recover principal or interest payments (that is, a loss event has been incurred).	We estimate the provision on the basis of historical loss experience for assets with similar credit risk characteristics to others in the respective collective pool. We adjust the historical loss experience based on current observable data – such as: changing economic conditions, the impact of the inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.
Measurement	We measure impairment loss as the difference between the asset's carrying amount and estimated future cash flows discounted to their present value at the asset's original effective interest rate. We record the result as an expense in profit or loss in the period we identify the impairment and recognise a corresponding reduction in the carrying amount of loans and advances through an offsetting provision.	
Uncollectable amounts	If a loan or advance is uncollectable (whether partially or in full), then we write off the balance (and also any related provision for credit impairment). We write off unsecured retail facilities at the earlier of the facility becoming 180 days past due, or the customer's bankruptcy or similar legal release from the obligation to repay the loan or advance. For secured facilities, write offs occur net of the proceeds determined to be recoverable from the realisation of collateral.	
Recoveries	If we recover any cash flows from loans and advances we have previously written off, then we recognise the recovery in profit or loss in the period the cash flows are received.	
Off-balance sheet amounts	Any off-balance sheet items, such as loan commitments, are considered for impairment both on an individual and collective basis.	

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES

Applicable from 1 October 2018

When estimating the allowance for expected credit losses for loans and advances, we used management's judgement in respect of the matters outlined below.

	Key judgements
Determining when a significant increase in credit risk has occurred	In the measurement of ECL, judgement is involved in setting the rules to determine whether there has been a SICR since initial recognition of a loan, resulting in the financial asset moving from Stage 1 to Stage 2. This is a key area of judgement as transition from Stage 1 to Stage 2 increases the ECL calculation from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk combined with transition from Stage 2 to Stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. The Banking Group monitors the effectiveness of SICR criteria on an ongoing basis.
Measuring both 12-month and lifetime credit losses	The PD, LGD, and EAD credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity. In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL. All other things being equal, an increase in the expected behavioural life will increase the amount of ECL.
Forecasting forward-looking scenarios	Our forecast of forward-looking information variables is established from a "base case" or most likely scenario that is used internally by management for planning and forecasting purposes. The expected outcomes of key economic drivers for the base case scenario as at 30 September 2019 are as follows: **New Zealand** GDP growth is forecast to improve modestly over the forecast period, with the unemployment rate remaining stable. Residential property values are expected to achieve modest levels of growth. Commercial property prices are expected to grow, however, the growth rate is expected to be modest through the forecast period. The consumer price index is expected to rise modestly.
Probability weighting of each scenario	Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario, as well as specific portfolio considerations where required.
Management temporary adjustments	Management temporary adjustments to the ECL allowance are adjustments we use in circumstances where we judge that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised.

Applicable prior to 1 October 2018

When we measured impairment of loans and advances, we used management's judgement of the extent of losses at reporting date.

	Individually	Collectively
Key judgements	• estimated future cash flows • business prospects for the customer • realisable value of any collateral • the Banking Group's position relative to other claimants • reliability of customer information • likely cost and duration of recovering loans	• estimated future cash flows • historical loss experience of assets with similar risk characteristics • impact of large concentrated losses inherent in the portfolio • assessment of the economic cycle

We regularly reviewed our key judgements and updated them to reflect actual loss experience.

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL LIABILITIES

CLASSIFICATION AND MEASUREMENT

Financial liabilities

Financial liabilities are measured at amortised cost, or fair value through profit or loss (when they are held for trading). Additionally, financial liabilities can be designated at FVTPL where:

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- a group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- the financial liability contains one or more embedded derivatives unless:
  - the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract; or
  - the embedded derivative is closely related to the host financial liability.

Where financial liabilities are designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income, except where doing so would create or enlarge an accounting mismatch in profit or loss. This section of the standard was early adopted by the Banking Group on 1 October 2013.

13. DEPOSITS AND OTHER BORROWINGS

	Note	2019 NZ$m	2018 NZ$m
Term deposits		54,984	51,298
On demand and short term deposits		42,329	41,602
Deposits not bearing interest		11,795	10,224
UDC secured investments	17	128	931
Total customer deposits		109,236	104,055
Certificates of deposit		1,484	910
Commercial paper		2,461	2,486
Deposits from banks and securities sold under repurchase agreements		203	517
Deposits from Immediate Parent Company and NZ Branch	27	43	40
Deposits and other borrowings		113,427	108,008
Residual contractual maturity:			
- to be settled within 1 year		109,696	103,492
- to be settled after 1 year		3,731	4,516
Deposits and other borrowings		113,427	108,008
Carried on balance sheet at:			
Amortised cost		110,966	105,522
Fair value through profit or loss (designated on initial recognition)		2,461	2,486
Deposits and other borrowings		113,427	108,008

RECOGNITION AND MEASUREMENT

For deposits and other borrowings that:

- are not designated at fair value through profit or loss on initial recognition, we measure them at amortised cost and recognise their interest expense using the effective interest rate method; and
- are managed on a fair value basis, reduce or eliminate an accounting mismatch or contain an embedded derivative, we designate them as fair value through profit or loss.

Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for details of the split between amortised cost and fair value.

For deposits and other borrowings designated at fair value we recognise the amount of fair value gain or loss attributable to changes in the Banking Group's own credit risk in other comprehensive income in retained earnings. Any remaining amount of fair value gain or loss we recognise directly in profit or loss. Once we have recognised an amount in other comprehensive income, we do not later reclassify it to profit or loss.

Securities sold under repurchase agreements represent a liability to repurchase the financial assets that remain on our balance sheet since the risks and rewards of ownership remain with the Banking Group. Over the life of the repurchase agreement, we recognise the difference between the sale price and the repurchase price and charge it to interest expense in the income statement.

14. DEBT ISSUANCES

The Banking Group uses a variety of funding programmes to issue unsubordinated debt (including senior debt and covered bonds) and subordinated debt. The difference between unsubordinated debt and subordinated debt is that holders of unsubordinated debt take priority over holders of subordinated debt owed by the relevant issuer and subordinated debt will be repaid by the relevant issuer only after the repayment of claims of depositors, other creditors and the senior debt holders.

	2019 NZ$m	2018 NZ$m
Senior debt	19,307	18,767
Covered bonds	4,460	3,929
Total unsubordinated debt	23,767	22,696
Subordinated debt (Additional Tier 1 capital)	2,440	2,439
Total debt issued	26,207	25,135

TOTAL DEBT ISSUED BY CURRENCY

The table below shows the Banking Group's issued debt by currency of issue, which broadly represents the debt holders' base location.

		2019 NZ$m	2018 NZ$m
AUD	Australian Dollars	48	45
EUR	Euro	8,200	6,740
JPY	Japanese Yen	-	36
NZD	New Zealand Dollars	6,160	6,654
CHF	Swiss Francs	1,522	1,658
USD	United States Dollars	10,277	10,002
Total debt issued		26,207	25,135
Residual contractual maturity:			
- to be settled within 1 year		4,580	3,835
- to be settled after 1 year		21,627	21,300
Total debt issued		26,207	25,135

Covered bonds are guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust (the Covered Bond Trust). The Covered Bond Trust is a member of the Banking Group, whereas the Covered Bond Guarantor is not a member of the Banking Group.

SUBORDINATED DEBT

Certain subordinated debt qualifies as regulatory capital for the Banking Group and is classified as Additional Tier 1 (AT1) capital for RBNZ's capital adequacy purposes depending on their term and conditions:

- AT1 Capital: perpetual capital instruments such as:
  - ANZ NZ Capital Notes (ANZ NZ CN);
  - ANZ NZ Internal Capital Notes 1 (ANZ NZ ICN); and
  - ANZ NZ Internal Capital Notes 2 (ANZ NZ ICN2).

NOTES TO THE FINANCIAL STATEMENTS

14. DEBT ISSUANCES (continued)

AT1 Capital

AT1 capital notes are fully paid convertible non-cumulative perpetual subordinated notes. The AT1 capital notes rank equally with each other and with the Bank's preference shares. Holders of AT1 capital notes do not have any right to vote in general meetings of the Bank.

As at 30 September 2019, ANZ NZ CN carried a BB+ credit rating from S&P Global Ratings. On 24 October 2019, S&P Global Ratings revised the credit rating on ANZ NZ CN from BB+ to BBB-.

AT1 capital notes are classified as debt given there are circumstances beyond the Bank's control where the principal is converted into a variable number of ordinary shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) or the Ultimate Parent Bank (ANZ NZ CN).

Interest payments on the AT1 capital notes are non-cumulative and subject to the issuer's absolute discretion and certain payment conditions (including regulatory requirements).

Where specified, AT1 capital notes provide the Bank with an early redemption or conversion option on a specified date and in certain other circumstances (such as a tax or regulatory event). This option is subject to RBNZ's and, in respect of the ANZ NZ CN, APRA's prior written approval.

Each of the AT1 capital notes will immediately convert into a variable number of ordinary shares of the:

- Bank based on the net assets per share in the Bank's most recently published Disclosure Statement (ANZ NZ ICN and ANZ NZ ICN2); or
- Ultimate Parent Bank based on the average market price of the Ultimate Parent Bank's ordinary shares immediately prior to conversion less a 1% discount, subject to a maximum conversion number (ANZ NZ CN)

if:

- the Banking Group's, or in the case of the ANZ NZ CN the Overseas Banking Group's Level 2, common equity tier 1 capital ratio is equal to or less than 5.125% - known as a Common Equity Capital Trigger Event; or
- RBNZ directs the Bank to convert or write-off the notes or a statutory manager is appointed to the Bank and decides that the Bank must convert or write-off the notes or, in the case of the ANZ NZ CN, APRA notifies the Ultimate Parent Bank that, without the conversion or write-off of certain securities or a public injection of capital (or equivalent support), it considers that the Ultimate Parent Bank would become non-viable – known as a Non-Viability Trigger Event.

Where specified, AT1 capital notes mandatorily convert into a variable number of ordinary shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) (based on the net assets per share in the Bank's most recently published Disclosure Statement) or the Ultimate Parent Bank (ANZ NZ CN) (based on the average market value of the shares immediately prior to conversion less a 1% discount):

- on a specified mandatory conversion date; or
- on an earlier date under certain circumstances as set out in the terms.

However, the mandatory conversion is deferred for a specified period if certain conversion tests are not met.

The table below show the key details of the AT1 capital notes on issue at 30 September in both the current and the prior year:

	ANZ NZ CN	ANZ NZ ICN	ANZ NZ ICN2
Issuer	The Bank	The Bank	The Bank
Issue date	31 March 2015	5 March 2015	15 June 2016
Issue amount	NZ$500 million	NZ$1,003 million	NZ$938 million
Face value	NZ$1	NZ$100	NZ$100
Interest frequency	Quarterly in arrears	Semi-annually in arrears	Semi-annually in arrears
Interest rate	Fixed at 7.2% p.a. until 25 May 2020. Resets in May 2020 to a floating rate: (New Zealand 3 month Bank bill rate + 3.5%)	Floating rate: (New Zealand 6 month Bank Bill rate + 3.8%)	Floating rate: (New Zealand 6 month Bank Bill rate + 6.29%)
Issuer's early redemption or conversion option	25 May 2020	24 March 2023	15 June 2026 and each 5th anniversary
Mandatory conversion date	25 May 2022	24 March 2025	n/a
Common equity capital trigger event	Yes	Yes	Yes
Non-viability trigger event	Yes	Yes	Yes
Carrying value as at 30 September 2019 (net of issue costs)	NZ$499 million	NZ$1,003 million	NZ$938 million

RECOGNITION AND MEASUREMENT

Debt issuances are measured at amortised cost. Where the Banking Group enters into a fair value hedge accounting relationship, the fair value attributable to the hedge risk is reflected in adjustments to the carrying value of the debt. Interest expense is recognised using the effective interest rate method.

Subordinated debt with capital-based conversion features (i.e. Common Equity Capital Trigger Event or Non-Viability Trigger Events) are considered to contain embedded derivatives that we account for separately at fair value through profit and loss. The embedded derivatives arise because the amount of shares issued on conversion following any of those trigger events is subject to the maximum conversion number, however they have no value as of the reporting date given the remote nature of those triggering events.

15. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

The use of financial instruments is fundamental to the Banking Group's businesses of providing banking and other financial services to our customers. The associated financial risks (primarily credit, market, and liquidity risks) are a significant portion of the Banking Group's principal risks.

This note details the Banking Group's financial risk management policies, processes and quantitative disclosures in relation to the key financial risks:

Principal financial risks	Key sections applicable to this risk
Overview	• An overview of our Risk Management Framework
Credit risk The risk of financial loss from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in financial loss. Credit risk incorporates the risks associate with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies.	• Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management
Market risk The risk to the Banking Group's earnings arising from: • changes in any interest rates, foreign exchanges rates, credit spreads, volatility and correlations; or • fluctuations in bond, commodity or equity prices.	• Market risk overview, management and control responsibilities • Measurement of market risk • Traded and non-traded market risk • Foreign currency risk – structural exposure
Liquidity and funding risk The risk that the Banking Group is unable to meet its payment obligations when they fall due, including: • repaying depositors or maturing wholesale debt; or • the Banking Group having insufficient capacity to fund increases in assets.	• Liquidity risk overview, management and control responsibilities • Key areas of measurement for liquidity risk • Liquidity portfolio management • Funding position • Residual contractual maturity analysis of the Banking Group's liabilities

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

This overview is provided to aid the users of the financial statements to understand the context of the financial disclosures required under NZ IFRS 7.

The Board is responsible for establishing and overseeing the Banking Group's Risk Management Framework (RMF). The Board has delegated authority to the Bank's Board Risk Committee (BRC) to develop and monitor compliance with the Banking Group's financial risk management policies. The BRC reports regularly to the Board on its activities.

The Board approves the strategic objectives of the Banking Group including:

- the Risk Appetite Statement (RAS), which sets out the Board's expectations regarding the degree of risk that the Banking Group is prepared to accept in pursuit of its strategic objectives and business plan; and
- the Risk Management Strategy (RMS), which describes the Banking Group's strategy for managing risks and the key elements of the RMF that gives effect to this strategy. This includes a description of each material risk, and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how the Banking Group identifies measures, evaluates, monitors, reports and controls or mitigates material risks.

The Banking Group, through its training and management standards and procedures, aims to maintain a disciplined and robust control environment in which all employees understand their roles and obligations. At the Banking Group, risk is everyone's responsibility.

The Banking Group has an independent risk management function, headed by the Chief Risk Officer who:

- is responsible for overseeing the risk profile and the risk management framework;
- can effectively challenge activities and decisions that materially affect the Banking Group's risk profile; and
- has an independent reporting line to the BRC to enable the appropriate escalation of issues of concern.

Internal Audit Function

Internal Audit is a function independent of management whose role is to provide the Board and management with an effective and independent appraisal of the internal controls established by management. Operating under a Board approved Charter, the reporting line for the outcomes of work conducted by Internal Audit is direct to the Chair of the Audit Committee, with a direct communication line to the Chief Executive Officer and the external auditor. The Internal Audit Plan is developed using a risk based approach and is reviewed quarterly. The Audit Committee approves the plan.

All audit activities are conducted in accordance with local and international auditing standards, and the results of the activities are reported to the Audit Committee and management. These results influence the performance assessment of business heads. Furthermore, Internal Audit monitors the remediation of audit issues and reports the current status of any outstanding audits.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Granting credit facilities to customers is one of the Banking Group's major sources of income. As this activity is also a principal risk, the Banking Group dedicates considerable resources to its management. The Banking Group assumes credit risk in a wide range of lending and other activities in diverse markets and in many jurisdictions. Credit risks arise from traditional lending to customers as well as from inter-bank, treasury, trade finance and capital markets activities around the world.

Our credit risk management framework ensures we apply a consistent approach across the Banking Group when we measure, monitor and manage the credit risk appetite set by the Board. The Board is assisted and advised by the BRC in discharging its duty to oversee credit risk. The BRC:

- sets the credit risk appetite and credit strategies; and
- approves credit transactions beyond the discretion of executive management.

We quantify credit risk through an internal credit rating system (masterscales) to ensure consistency across exposure types and to provide a consistent framework for reporting and analysis. The system uses models and other tools to measure the following for customer exposures:

Probability of Default (PD)	Expressed by a Customer Credit Rating (CCR), reflecting the Banking Group's assessment of a customer's ability to service and repay debt.
Exposure at Default (EAD)	The expected amount of loan outstanding at the time of default.
Loss Given Default (LGD)	Expressed by a Security Indicator (SI) ranging from A to G. The SI is calculated by reference to the percentage of loan covered by security which the Banking Group can realise if a customer defaults. The A-G scale is supplemented by a range of other SIs which cover such factors as cash cover and sovereign backing. For retail and some small business lending, we group exposures into large homogenous pools – and the LGD is assigned at the pool level.

Our specialist credit risk teams develop and validate the Banking Group's PD and LGD rating models. The outputs from these models drive our day-to-day credit risk management decisions including origination, pricing, approval levels, regulatory capital adequacy, internal capital allocation, and credit provisioning.

All customers with whom the Banking Group has a credit relationship are assigned a CCR at origination via either of the following assessment approaches:

Large and more complex lending	Retail and some small business lending
Rating models provide a consistent and structured assessment, with judgement required around the use of out-of-model factors. We handle credit approval on a dual approval basis, jointly with the business writer and an independent credit officer.	Automated assessment of credit applications using a combination of scoring (application and behavioural), policy rules and external credit reporting information. If the application does not meet the automated assessment criteria, then it is referred out for manual assessment.

We use the Banking Group's internal CCR to manage the credit quality of financial assets. To enable wider comparisons, the Banking Group's CCRs are mapped to external rating agency scales as follows:

Credit quality description	Internal CCR	The Banking Group customer requirements	Moody's Rating	S&P Global Ratings
Strong	CCR 0+ to 4-	Demonstrated superior stability in their operating and financial performance over the long-term, and whose earnings capacity is not significantly vulnerable to foreseeable events.	Aaa – Baa3	AAA – BBB-
Satisfactory	CCR 5+ to 6-	Demonstrated sound operational and financial stability over the medium to long-term even though some may be susceptible to cyclical trends or variability in earnings.	Ba1 – B1	BB+ – B+
Weak	CCR 7+ to 8=	Demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.	B2 – Caa	B - CCC
Defaulted	CCR 8- to 10	When doubt arises as to the collectability of a credit facility, the financial instrument (or 'the facility') is classified as defaulted.	n/a	n/a

15. FINANCIAL RISK MANAGEMENT (continued)

The Banking Group has adopted NZ IFRS 9 effective from 1 October 2018 which has resulted in changes to the classification and measurement of financial assets, including the impairment of financial assets. The presentation of credit risk information for 2019 has been amended. Refer to Note 1 for further details on key requirements and impacts of the changes due to the adoption of NZ IFRS 9.

MAXIMUM EXPOSURE TO CREDIT RISK

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity instruments which are primarily subject to market risk, or bank notes and coins.

For undrawn facilities, this maximum exposure to credit risk is the full amount of the committed facilities. For contingent exposures, the maximum exposure to credit risk is the maximum amount the Banking Group would have to pay if the instrument is called upon.

For the purpose of this note, assets presented as held for sale in the balance sheet have been reallocated to their respective balance sheet categories.

The table below shows our maximum exposure to credit risk of on-balance sheet and off-balance sheet positions before taking account of any collateral held or other credit enhancements.

	Reported		Excluded[1] / Other[2]		Maximum exposure to credit risk	
	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m
On-balance sheet positions						
Net loans and advances[2]	**132,525**	126,466	**-**	(71)	**132,525**	126,537
Other financial assets:						
Cash and cash equivalents	**2,363**	2,200	**192**	204	**2,171**	1,996
Settlement balances receivable	**193**	656	**-**	-	**193**	656
Collateral paid	**2,324**	1,919	**-**	-	**2,324**	1,919
Trading securities	**8,942**	8,024	**-**	-	**8,942**	8,024
Derivative financial instruments	**11,666**	8,086	**-**	-	**11,666**	8,086
Investment securities	**7,027**	6,502	**-**	-	**7,027**	6,502
Other financial assets[3,4]	**622**	719	**-**	-	**622**	719
Total other financial assets	**33,137**	28,106	**192**	204	**32,945**	27,902
Subtotal	**165,662**	154,572	**192**	133	**165,470**	154,439
Off-balance sheet commitments						
Undrawn and contingent facilities[2,5]	**29,253**	30,105	**-**	71	**29,253**	30,034
Total	**194,915**	184,677	**192**	204	**194,723**	184,473

1 Excluded comprises bank notes and coins and cash at bank within cash and cash equivalents.
2 Other relates to the transfer of individual and collective provisions related to off-balance sheet facilities held in net loans and advances. The provisions are transferred for the purposes of showing the maximum exposure to credit risk by relevant facility type in this and the following tables.
3 Including items reclassified as held for sale.
4 Other financial assets mainly comprise accrued interest, insurance receivables and acceptances.
5 Undrawn facilities and contingent facilities include guarantees, letters of credit and performance related contingencies, net of allowance for expected credit losses.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT QUALITY

An analysis of the Banking Group's credit risk exposure is presented in the following tables based on the Banking Group's internal rating by stage without account of the effects of any collateral or other credit enhancements.

Net loans and advances			Stage 3		
As at 30 September 2019	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
Strong	95,589	2,270	-	-	97,859
Satisfactory	26,402	4,621	-	-	31,023
Weak	1,224	2,117	-	-	3,341
Defaulted	-	-	444	285	729
Subtotal	123,215	9,008	444	285	132,952
Allowance for ECL	(164)	(194)	(42)	(97)	(497)
Net loans and advances at amortised cost	123,051	8,814	402	188	132,455
Coverage ratio	0.13%	2.15%	9.46%	34.04%	0.37%
Unearned income					(237)
Capitalised brokerage/mortgage origination fees					307
Net carrying amount					132,525

Other financial assets	
As at 30 September 2019	Total NZ$m
Strong	32,342
Satisfactory	575
Weak	28
Defaulted	-
Total carrying amount	32,945

Off-balance sheet commitments - undrawn and contingent facilities			Stage 3		
As at 30 September 2019	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
Strong	23,296	59	-	-	23,355
Satisfactory	4,883	641	-	-	5,524
Weak	312	137	-	-	449
Defaulted	-	-	3	19	22
Gross undrawn and contingent facilities subject to ECL	28,491	837	3	19	29,350
Allowance for ECL included in Other provisions (refer to Note 20)	(60)	(24)	(2)	(11)	(97)
Net undrawn and contingent facilities subject to ECL	28,431	813	1	8	29,253
Coverage ratio	0.21%	2.87%	66.67%	57.89%	0.33%
Net undrawn and contingent facilities					29,253

15. FINANCIAL RISK MANAGEMENT (continued)

2018 Credit risk disclosures

The below disclosures do not reflect the adoption of NZ IFRS 9 and have been prepared under the requirements of the previous NZ IAS 39.

The table below provides an analysis of the credit quality of the maximum exposure to credit risk split by:

- neither past due nor impaired financial assets by credit quality;
- past due but not impaired assets by ageing; and
- impaired assets presented as gross amounts and net of individually assessed provisions.

As at 30 September 2018	Loans and advances NZ$m	Other financial assets NZ$m	Off-balance sheet credit related commitments NZ$m	Total NZ$m
Neither past due nor impaired				
Strong credit profile	92,783	27,368	23,475	143,626
Satisfactory risk	29,335	521	6,186	36,042
Sub-standard but not past due or impaired	2,296	13	359	2,668
Subtotal	124,414	27,902	30,020	182,336
Past due but not impaired				
≥ 1 < 30 days	1,420	-	-	1,420
≥ 30 < 60 days	179	-	-	179
≥ 60 < 90 days	128	-	-	128
≥ 90 days	205	-	-	205
Subtotal	1,932	-	-	1,932
Impaired				
Impaired loans	321	-	-	321
Non-performing commitments and contingencies	-	-	14	14
Gross impaired financial assets	321	-	14	335
Individual provisions	(130)	-	-	(130)
Subtotal	191	-	14	205
Total	126,537	27,902	30,034	184,473

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CONCENTRATIONS OF CREDIT RISK

Credit risk becomes concentrated when a number of customers are engaged in similar activities, have similar economic characteristics, or have similar activities within the same geographic region – therefore, they may be similarly affected by changes in economic or other conditions. The Banking Group monitors its credit portfolio to manage risk concentration and rebalance the portfolio. The Banking Group also applies single customer counterparty limits to protect against unacceptably large exposures to one single customer.

Analysis of financial assets by industry sector is based on Australian and New Zealand Standard Industrial Classification (ANZSIC) codes. The significant categories shown are the level one New Zealand Standard Industry Output Categories (NZSIOC), except that Agriculture is shown separately as required by the Order.

Composition of financial instruments that give rise to credit risk by industry group are presented below:

	Loans and advances[3]		Other financial assets[4]		Off-balance sheet credit related commitments[5]		Total	
	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m
New Zealand residents								
Agriculture	17,855	17,844	84	82	1,021	1,373	18,960	19,299
Forestry and fishing, agriculture services	1,255	1,379	9	9	225	249	1,489	1,637
Manufacturing	2,682	2,687	378	284	2,004	1,793	5,064	4,764
Electricity, gas, water and waste services	1,414	1,403	514	330	1,834	1,576	3,762	3,309
Construction	1,832	1,713	32	21	1,039	1,358	2,903	3,092
Wholesale trade	1,488	1,404	94	63	1,681	1,521	3,263	2,988
Retail trade and accommodation	2,956	3,211	29	27	961	969	3,946	4,207
Transport, postal and warehousing	1,309	1,222	137	121	864	783	2,310	2,126
Finance and insurance services	816	872	6,203	5,509	1,627	1,567	8,646	7,948
Public administration and safety[1]	343	364	9,723	9,654	1,105	1,043	11,171	11,061
Rental, hiring & real estate services	33,340	31,805	1,212	235	3,112	3,461	37,664	35,501
Professional, scientific, technical, administrative and support services	1,126	1,165	11	9	631	633	1,768	1,807
Households	61,515	56,808	210	192	11,278	11,977	73,003	68,977
All other New Zealand residents[2]	2,537	2,569	242	167	1,847	1,663	4,626	4,399
Subtotal	130,468	124,446	18,878	16,703	29,229	29,966	178,575	171,115
Overseas								
Finance and insurance services	148	128	14,030	11,109	121	139	14,299	11,376
Households	1,553	1,512	5	5	-	-	1,558	1,517
All other non-NZ residents	783	818	32	85	-	-	815	903
Subtotal	2,484	2,458	14,067	11,199	121	139	16,672	13,796
Gross total	132,952	126,904	32,945	27,902	29,350	30,105	195,247	184,911
Allowance for ECL	(497)	(441)	-	-	(97)	(71)	(594)	(512)
Subtotal	132,455	126,463	32,945	27,902	29,253	30,034	194,653	184,399
Unearned income	(237)	(239)	-	-	-	-	(237)	(239)
Capitalised brokerage / mortgage origination fees	307	313	-	-	-	-	307	313
Maximum exposure to credit risk	132,525	126,537	32,945	27,902	29,253	30,034	194,723	184,473

1 Public administration and safety includes exposures to local government administration and central government administration, defence and public safety.
2 Other includes exposures to mining, information media and telecommunications, education and training, health care and social assistance and arts, recreation and other services.
3 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.
4 Including items reclassified as held for sale.
5 Off-balance sheet credit related commitments comprise undrawn facilities, customer contingent liabilities and letters of offer.

15. FINANCIAL RISK MANAGEMENT (continued)

COLLATERAL MANAGEMENT

We use collateral for on and off-balance sheet exposures to mitigate credit risk if a counterparty cannot meet its repayment obligations. Where there is sufficient collateral, an expected credit loss is not recognised. This is largely the case for certain lending products that are secured by corresponding investment for which margin loans are utilised and for reverse repurchase agreements. For some products, the collateral provided by customers is fundamental to the product's structuring, so it is not strictly the secondary source of repayment - for example, lending secured by trade receivables is typically repaid by the collection of those receivables. During the period there was no change in our collateral policies.

The nature of collateral or security held for the relevant classes of financial assets is as follows:

Net loans and advances	
Loans – housing and personal	Housing loans are secured by mortgage(s) over property and additional security may take the form of guarantees and deposits. Personal lending (including credit cards and overdrafts) is predominantly unsecured. If we take security, then it is restricted to eligible vehicles, motor homes and other assets.
Loans – business	Business loans may be secured, partially secured or unsecured. Typically, we take security by way of a mortgage over property and/or a charge over the business or other assets. If appropriate, we may take other security to mitigate the credit risk, for example: guarantees, standby letters of credit or derivative protection.
Other financial assets	
Trading securities, investment securities, derivatives and other financial assets	For trading securities, we do not seek collateral directly from the issuer or counterparty. However, the collateral may be implicit in the terms of the instrument (for example, with an asset-backed security). The terms of debt securities may include collateralisation. For derivatives, we typically terminate all contracts with the counterparty and settle on a net basis at market levels current at the time of a counterparty default under International Swaps and Derivatives Association (ISDA) Master Agreements. Our preferred practice is to use a Credit Support Annex (CSA) to the ISDA so that open derivative positions with the counterparty are aggregated and cash collateral (or other forms of eligible collateral) is exchanged daily. The collateral is provided by the counterparty when their position is out of the money (or provided to the counterparty by the Banking Group when our position is out of the money).
Off-balance sheet positions	
Undrawn and contingent liabilities	Collateral for off-balance sheet positions is mainly held against undrawn facilities, and they are typically performance bonds or guarantees. Undrawn facilities that are secured include housing loans secured by mortgages over residential property and business lending secured by commercial real estate and/or charges over business assets.

The table below shows the estimated value of collateral we hold and the net unsecured portion of credit exposures:

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m
Net loans and advances	**132,525**	126,537	**124,249**	117,337	**8,276**	9,200
Other financial assets[1]	**32,945**	27,902	**1,857**	2,029	**31,088**	25,873
Off-balance sheet positions	**29,253**	30,034	**14,152**	15,124	**15,101**	14,910
Total	**194,723**	184,473	**140,258**	134,490	**54,465**	49,983

1 Including items reclassified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Market risk stems from the Banking Group's trading and balance sheet management activities and the impact of changes and correlation between interest rates, foreign exchange rates, credit spreads and volatility in bond, commodity or equity prices.

The BRC delegates responsibility for day-to-day management of both market risk and compliance with market risk policies to the Bank's Asset & Liability Committee (ALCO).

Within overall strategies and policies established by the BRC, business units and risk management have joint responsibility for the control of market risk at the Banking Group level. The Market Risk team (a specialist risk management unit independent of the business) allocates market risk limits at various levels and monitors and reports on them daily. This detailed framework allocates individual limits to manage and control exposures using risk factors and profit and loss limits.

Management, measurement and reporting of market risk is undertaken in two broad categories:

Traded market risk	Non-traded market risk
Risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Principal risk categories monitored are: • Currency risk – potential loss arising from changes in foreign exchange rates or their implied volatilities. • Interest rate risk – potential loss from changes in market interest rates or their implied volatilities. • Credit spread risk – potential loss arising from a movement in margin or spread relative to a benchmark. • Commodity risk – potential loss arising from changes in commodity prices or their implied volatilities. • Equity risk – potential loss arising from changes in equity prices.	Risk of loss associated with the management of non-traded interest rate risk, liquidity risk and foreign exchange exposures. This includes interest rate risk in the banking book. This risk of loss arises from adverse changes in the overall and relative level of interest rates for different tenors, differences in the actual versus expected net interest margin, and the potential valuation risk associated with embedded options in financial instruments and bank products.

MEASUREMENT OF MARKET RISK

We primarily manage and control market risk using Value at Risk (VaR), sensitivity analysis and stress testing.

VaR gauges the Banking Group's possible daily loss based on historical market movements.

The Banking Group's VaR approach for both traded and non-traded risk is historical simulation. We use historical changes in market rates, prices and volatilities over:

- the previous 500 business days, to calculate standard VaR, and
- a 1-year stressed period, to calculate stressed VaR.

We calculate traded and non-traded VaR using a one-day holding period. For stressed VaR we use a ten-day period. Back testing is used to ensure our VaR models remain accurate.

The Banking Group measures VaR at a 99% confidence interval which means there is a 99% chance that a loss will not exceed the VaR for the relevant holding period.

15. FINANCIAL RISK MANAGEMENT (continued)

TRADED AND NON-TRADED MARKET RISK

Traded market risk

The table below shows the traded market risk VaR on a diversified basis by risk categories:

	2019				2018			
	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m
Traded value at risk 99% confidence								
Foreign exchange	0.5	1.0	0.2	0.5	0.5	1.6	0.2	0.7
Interest rate	1.4	2.5	0.6	1.2	1.4	3.6	0.8	1.9
Credit	0.6	0.7	0.3	0.4	0.5	0.8	0.3	0.5
Diversification benefit[1]	(0.7)	n/a	n/a	(0.8)	(1.0)	n/a	n/a	(0.9)
Total VaR	1.8	2.6	0.8	1.3	1.4	4.0	1.0	2.2

1. The diversification benefit reflects risks that offset across categories. The high and low VaR figures reported for each factor did not necessarily occur on the same day as the high and low VaR reported for the Banking Group as a whole. Consequently, a diversification benefit for high and low would not be meaningful and is therefore omitted from the table.

Non-traded market risk

Balance sheet risk management

The principal objectives of balance sheet risk management are to maintain acceptable levels of interest rate and liquidity risk to mitigate the negative impact of movements in interest rates on the earnings and market value of the Banking Group's banking book, while ensuring the Banking Group maintains sufficient liquidity to meet its obligations as they fall due.

Interest rate risk management

Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the Banking Group's future net interest income. This risk arises from two principal sources, namely mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets. Interest rate risk is reported using VaR and scenario analysis (based on the impact of a 1% rate shock). The table below shows VaR figures for non-traded interest rate risk for the Banking Group.

	2019				2018			
	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m
Non-traded value at risk 99% confidence								
Total VaR	10.0	10.0	7.4	8.4	8.0	10.2	6.4	7.8

We undertake scenario analysis to stress test the impact of extreme events on the Banking Group's market risk exposures. We model a 1% overnight parallel positive shift in the yield curve to determine the potential impact on our net interest income over the next 12 months. This is a standard risk measure which assumes the parallel shift is reflected in all wholesale and customer rates.

The table below shows the outcome of this risk measure for the current and previous financial years, expressed as a percentage of reported net interest income. A positive number signifies that a rate increase is positive for net interest income over the next 12 months.

	2019	2018
Impact of 1% rate shock		
As at period end	0.2%	-0.4%
Maximum exposure	1.0%	0.9%
Minimum exposure	-0.7%	-1.2%
Average exposure (in absolute terms)	0.3%	0.0%

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

Where it is considered appropriate, the Banking Group takes out economic hedges against larger foreign exchange denominated revenue streams (primarily Australian Dollar, US Dollar and US Dollar correlated). The primary objective of hedging is to ensure that, if practical, the consolidated capital ratios are neutral to the effect of changes in exchange rates. During the current and prior years, we had selective hedges in place. Further detail on the Banking Group's hedging relationships is disclosed in Note 9 Derivative Financial Instruments.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Liquidity risk is the risk that the Banking Group is either:

- unable to meet its payment obligations (including repaying depositors or maturing wholesale debt) when they fall due; or
- does not have the appropriate amount, tenor and composition of funding and liquidity to fund increases in its assets.

Management of liquidity and funding is overseen by ALCO. The Banking Group's liquidity and funding risks are governed by a set of principles approved by the Risk Committees of the Bank's and Ultimate Parent Bank's Boards and include:

- maintaining the ability to meet all payment obligations in the immediate term;
- ensuring that the Banking Group has the ability to meet 'survival horizons' under Banking Group specific and general market liquidity stress scenarios to meet cash flow obligations over the short to medium term;
- maintaining strength in the Banking Group's balance sheet structure to ensure long term resilience in the liquidity and funding risk profile;
- ensuring the liquidity management framework is compatible with local regulatory requirements;
- preparing daily liquidity reports and scenario analysis to quantify the Banking Group's positions;
- targeting a diversified funding base to avoid undue concentrations by investor type, maturity, market source and currency;
- holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations; and
- establishing a detailed contingency plan to cover different liquidity crisis events.

KEY AREAS OF MEASUREMENT FOR LIQUIDITY RISK

Supervision and regulation

RBNZ requires the Bank to have a comprehensive Board approved liquidity strategy defining: policy, systems and procedures for measuring, assessing, reporting and managing liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis. The Banking Group is required to meet one week and one month liquidity mismatch ratios and a one year core funding ratio each day.

Scenario modelling

A key component of the Banking Group's liquidity management framework is scenario modelling.

Potential severe liquidity crisis scenarios which model the behaviour of cash flows where there is a problem (real or perceived) may include, but are not limited to, operational issues, doubts about the solvency of the Banking Group, or adverse rating changes. Under these scenarios the Banking Group may have significant difficulty rolling over or replacing funding. The Banking Group's liquidity policy requires sufficient high quality liquid assets to be held to meet its liquidity needs for the following 30 calendar days under the modelled scenarios.

As of 30 September 2019 the Banking Group was in compliance with the above scenarios.

Structural balance sheet metrics

The Banking Group's liquidity management framework also encompasses structural balance sheet metrics such as the RBNZ core funding ratio. These metrics are designed to limit the amount of funding required to be rolled over within a 1 year timeframe and so interact with the liquidity scenarios to maintain the Banking Group's liquidity position.

Wholesale funding

The Banking Group's wholesale funding strategy is designed to deliver a sustainable portfolio of wholesale funds that balances cost efficiency with targeting diversification by markets, investors, currencies, maturities and funding structures. Short-term and long-term wholesale funding is managed and executed by Treasury operations.

The Banking Group also uses maturity concentration limits under the wholesale funding and liquidity management framework. Maturity concentration limits ensure that the Banking Group is not required to issue large volumes of new wholesale funding within a short time period to replace maturing wholesale funding. Funding instruments used to meet the wholesale borrowing requirement must be on a pre-established list of approved products.

Funding capacity and debt issuance planning

The Banking Group adopts a conservative approach to determine its funding capacity. Annually, a funding plan is approved by the Bank's Board. The plan is supplemented by regular updates and is linked to the Banking Group's three year strategic planning cycle.

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY PORTFOLIO MANAGEMENT

The Banking Group holds a diversified portfolio of cash and high quality highly liquid securities to support liquidity risk management. The size of the Banking Group's liquidity portfolio is based on the amount required to meet the requirements of its internal and regulatory liquidity scenario metrics.

Total liquidity portfolio

	2019 NZ$m	2018 NZ$m
Cash and balances with central banks	**1,734**	2,026
Certificates of deposit	**374**	179
Central and local government bonds	**7,922**	7,528
Government treasury bills	**55**	794
Reserve Bank bills	**-**	50
Other bonds	**7,256**	5,493
Total liquidity portfolio	**17,341**	16,070

Assets held for managing liquidity risk include short term cash held with RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated New Zealand domestic corporates. These assets would be accepted as collateral by RBNZ in repurchase transactions. At 30 September 2019 the Banking Group would be eligible to enter into repurchase transactions with a value of NZ$15,607 million. The Banking Group also held unencumbered internal residential mortgage backed securities (RMBS) which would entitle the Banking Group to enter into repurchase transactions with a value of NZ$7,179 million at 30 September 2019.

Liquidity crisis contingency planning

The Banking Group maintains a liquidity crisis contingency plan to define an approach for analysing and responding to a liquidity-threatening event on a group wide basis. The framework includes:

- the establishment of crisis severity/stress levels;
- clearly assigned crisis roles and responsibilities;
- early warning signals indicative of an approaching crisis, and mechanisms to monitor and report these signals;
- outlined action plans, and courses of action for altering asset and liability behaviour;
- procedures for crisis management reporting, and covering cash-flow shortfalls; and
- assigned responsibilities for internal and external communications.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

FUNDING POSITION

The Banking Group actively uses balance sheet disciplines to prudently manage the funding mix. The Banking Group employs funding metrics to ensure that an appropriate proportion of its assets are funded from stable sources, including customer liabilities, longer-dated wholesale debt (with remaining term exceeding one year) and equity.

Analysis of funding liabilities by industry is based on ANZSIC codes. The significant categories shown are the level one NZSIOC.

	Note	2019 NZ$m	2018 NZ$m
Funding composition			
Customer deposits	13	109,236	104,055
Wholesale funding			
Debt issuances		26,207	25,135
Certificates of deposit and commercial paper		3,945	3,396
Other borrowings		246	557
Total wholesale funding		30,398	29,088
Total funding		139,634	133,143
Customer deposits by industry - New Zealand residents			
Agriculture, forestry and fishing		3,727	3,763
Manufacturing		2,152	2,335
Construction		2,194	2,050
Wholesale trade		2,020	1,571
Retail trade and accommodation		1,543	1,484
Financial and insurance services		11,458	10,661
Rental, hiring and real estate services		3,210	2,878
Professional, scientific, technical, administrative and support services		5,467	5,126
Public administration and safety		1,479	1,572
Arts, recreation and other services		1,968	2,027
Households		59,131	56,640
All other New Zealand residents[1]		3,553	3,556
		97,902	93,663
Customer deposits by industry - overseas			
Households		10,118	9,876
All other non-NZ residents		1,216	516
		11,334	10,392
Total customer deposits		109,236	104,055
Wholesale funding (financial and insurance services industry)			
New Zealand		7,799	8,082
Overseas		22,599	21,006
Total wholesale funding		30,398	29,088
Total funding		139,634	133,143
Concentrations of funding by geography			
New Zealand		105,701	101,745
Australia		775	739
United States		13,844	13,671
Europe		11,139	9,618
Other countries		8,175	7,370
Total funding		139,634	133,143

1 Other includes mining; electricity, gas, water and waste services; transport, postal and warehousing; information media and telecommunications; education and training; health care and social assistance.

15. FINANCIAL RISK MANAGEMENT (continued)

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF THE BANKING GROUP'S FINANCIAL LIABILITIES

The table below provides residual contractual maturity analysis of financial liabilities at 30 September 2019 within relevant maturity groupings. All outstanding debt issuances are profiled on the earliest date on which the Banking Group may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reported on the balance sheet.

It should be noted that this is not how the Banking Group manages its liquidity risk.

2019	On demand NZ$m	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
Settlement balances payable	1,114	504	-	-	-	1,618
Collateral received	-	991	-	-	-	991
Deposits and other borrowings	54,183	27,187	29,476	4,065	-	114,911
Derivative financial liabilities (trading)	-	9,530	-	-	-	9,530
Debt issuances[1]	-	284	4,859	16,925	5,277	27,345
Other financial liabilities	-	148	28	106	108	390
Derivative financial instruments (balance sheet management)						
- gross inflows	-	842	2,067	8,426	714	12,049
- gross outflows	-	(974)	(2,444)	(9,084)	(723)	(13,225)
2018						
Settlement balances payable	1,338	837	-	-	-	2,175
Collateral received	-	845	-	-	-	845
Deposits and other borrowings	52,016	25,701	27,008	4,854	-	109,579
Derivative financial liabilities (trading)	-	6,147	-	-	-	6,147
Debt issuances[1]	-	930	3,676	17,810	4,596	27,012
Other financial liabilities[2]	-	119	7	44	76	246
Derivative financial instruments (balance sheet management)						
- gross inflows	-	1,790	2,033	9,080	1,266	14,169
- gross outflows	-	(1,998)	(2,218)	(9,368)	(1,179)	(14,763)

1 Any callable wholesale debt instruments have been included at their next call date. Refer to Note 14 Debt Issuances for subordinated debt call dates.
2 Including items reclassified as held for sale.

At 30 September 2019, NZ$59 million (2018: NZ$86 million) of the Banking Group's non-credit related commitments and NZ$29,350 million (2018: NZ$30,105 million) of its credit related commitments and contingent liabilities mature in less than 1 year, based on the earliest date on which the Banking Group may be required to pay.

NOTES TO THE FINANCIAL STATEMENTS

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Banking Group carries a significant number of financial instruments on the balance sheet at fair value. The fair value is the best estimate of the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

VALUATION

The Banking Group has an established control framework, including appropriate segregation of duties, to ensure that fair values are accurately determined, reported and controlled. The framework includes the following features:

- products are approved for transacting with external customers and counterparties only where fair values can be appropriately determined;
- quoted market prices used to value financial instruments are independently verified with information from external pricing providers;
- fair value methodologies and inputs are evaluated and approved by a function independent of the party that undertakes the transaction;
- movements in fair values are independently monitored and explained by reference to underlying factors relevant to the fair value; and
- valuation adjustments (such as funding valuation adjustments, credit valuation adjustments and bid-offer adjustments) are independently validated and monitored.

If the Banking Group holds offsetting risk positions, then the Banking Group uses the portfolio exemption in NZ IFRS 13 *Fair Value Measurement* (NZ IFRS 13) to measure the fair value of such groups of financial assets and financial liabilities. We measure the portfolio based on the price that would be received to sell a net long position (an asset) for a particular risk exposure, or to transfer a net short position (a liability) for a particular risk exposure.

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

We use valuation techniques to estimate the fair value of assets and liabilities for recognition, measurement and disclosure purposes where no quoted price in an active market exists for that asset or liability. This includes the following:

Asset or liability	Fair value approach
Financial instruments classified as: - Trading securities - Derivative financial assets and financial liabilities - Investment securities	Valuation techniques are used that incorporate observable market inputs for financial instruments with similar credit risk, maturity and yield characteristics.
Financial instruments classified as: - Net loans and advances - Deposits and other borrowings - Debt issuances	Discounted cash flow techniques are used whereby contractual future cash flows of the instrument are discounted using wholesale market interest rates, or market borrowing rates for debt with similar maturities or with a yield curve appropriate for the remaining term to maturity.

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following tables set out the classification of financial asset and liability categories according to measurement bases together with the carrying amounts as reported on the balance sheet.

		2019			2018		
	Note	At amortised cost NZ$m	At fair value NZ$m	Total NZ$m	At amortised cost NZ$m	At fair value NZ$m	Total NZ$m
Financial assets							
Cash and cash equivalents		2,363	-	2,363	2,200	-	2,200
Settlement balances receivable		193	-	193	656	-	656
Collateral paid		2,324	-	2,324	1,919	-	1,919
Trading securities	8	-	8,942	8,942	-	8,024	8,024
Derivative financial instruments	9	-	11,666	11,666	-	8,086	8,086
Investment securities	10	-	7,027	7,027	-	6,502	6,502
Net loans and advances		132,525	-	132,525	126,466	-	126,466
Other financial assets[1]		622	-	622	592	127	719
Total		138,027	27,635	165,662	131,833	22,739	154,572
Financial liabilities							
Settlement balances payable		1,607	-	1,607	2,161	-	2,161
Collateral received		991	-	991	845	-	845
Deposits and other borrowings	13	110,966	2,461	113,427	105,522	2,486	108,008
Derivative financial instruments	9	-	11,042	11,042	-	8,095	8,095
Debt issuances		26,207	-	26,207	25,135	-	25,135
Other financial liabilities[1]		628	213	841	576	110	686
Total		140,399	13,716	154,115	134,239	10,691	144,930

1 Including items reclassified as held for sale.

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FAIR VALUE HIERARCHY

The Banking Group categorises assets and liabilities carried at fair value into a fair value hierarchy as required by NZ IFRS 13 based on the observability of inputs used to measure the fair value:

- Level 1 – valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuations using inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly; and
- Level 3 – valuations where significant unobservable are used to measure the fair value of the asset or liability.

The following table presents assets and liabilities carried at fair value in accordance with the fair value hierarchy:

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m
Assets								
Trading securities	8,319	6,795	623	1,229	-	-	8,942	8,024
Derivative financial instruments	10	7	11,653	8,076	3	3	11,666	8,086
Investment securities	7,026	6,457	-	44	1	1	7,027	6,502
Investments backing insurance contract liabilities[1]	-	-	-	127	-	-	-	127
Total	15,355	13,259	12,276	9,476	4	4	27,635	22,739
Liabilities								
Deposits and other borrowings	-	-	2,461	2,486	-	-	2,461	2,486
Derivative financial instruments	11	10	11,031	8,084	-	1	11,042	8,095
Other financial liabilities	213	110	-	-	-	-	213	110
Total	224	120	13,492	10,570	-	1	13,716	10,691

[1] Including items reclassified as held for sale.

Fair value designation

We designate commercial paper (included in deposits and other borrowings) as fair value through profit or loss where they are managed on a fair value basis to align the measurement with how the instruments are managed.

NOTES TO THE FINANCIAL STATEMENTS

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

The following table sets out the Banking Group's basis of estimating fair values of the financial instruments carried at amortised cost:

Financial asset and liability	Fair value approach
Net loans and advances to banks	Discounted cash flows using prevailing market rates for loans with similar credit quality.
Net loans and advances to customers	Present value of future cash flows, discounted using a curve that incorporates changes in wholesale market rates, the Banking Group's cost of wholesale funding and the customer margin, as appropriate.
Deposit liability without a specified maturity or at call	The amount payable on demand at the reporting date. We do not adjust the fair value for any value we expect the Banking Group to derive from retaining the deposit for a future period.
Interest bearing fixed maturity deposits and other borrowings and acceptances with quoted market rates	Market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows to derive the fair value.
Debt issuances	Calculated based on quoted market prices or observable inputs as applicable. If quoted market prices are not available, we use a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument. The fair value reflects adjustments to credit spreads applicable to the Banking Group for that instrument.

The financial assets and financial liabilities listed in the table below are carried at amortised cost on the Banking Group's balance sheet. While this is the value at which we expect the assets will be realised and the liabilities settled, the Banking Group provides an estimate of the fair value of the financial assets and financial liabilities at balance date in the table below.

	Carrying amount		Categorised into fair value hierarchy						Fair value (total)	
			Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)			
	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m
Financial assets										
Net loans and advances	132,525	126,466	-	-	167	131	132,920	126,614	133,087	126,745
Total	132,525	126,466	-	-	167	131	132,920	126,614	133,087	126,745
Financial liabilities										
Deposits and other borrowings	110,966	105,522	-	-	111,098	105,592	-	-	111,098	105,592
Debt issuances	26,207	25,135	2,848	2,533	23,737	22,929	-	-	26,585	25,462
Total	137,173	130,657	2,848	2,533	134,835	128,521	-	-	137,683	131,054

KEY JUDGEMENTS AND ESTIMATES

The Banking Group evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and financial liabilities at the balance sheet date.

The majority of valuation models the Banking Group uses employ only observable market data as inputs. However, for certain financial instruments, we may use data that is not readily observable in current markets. If we use unobservable market data, then we need to exercise more judgement to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, we derive unobservable inputs from other relevant market data and compare them to observed transaction prices where available.

When establishing the fair value of a financial instrument using a valuation technique, the Banking Group considers valuation adjustments in determining the fair value. We may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments – refer Note 9 Derivative Financial Instruments) to the techniques used to reflect the Banking Group's assessment of factors that market participants would consider in setting fair value.

17. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The following disclosure excludes the amounts presented as collateral paid and received in the balance sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of those collateral agreements are included in the standard CSA that forms part of the ISDA Master Agreement.

ASSETS CHARGED AS SECURITY FOR LIABILITIES

Assets charged as security for liabilities include the following types of instruments:

- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements.
- UDC secured investments are secured by a security interest granted under a trust deed over all of UDC's present and future assets and undertakings, to Trustees Executors Limited, as supervisor. The assets subject to the security interest comprise mainly loans to UDC's customers and certain plant and equipment. The security interest secures all amounts payable by UDC on the UDC secured investments and all other monies payable by UDC under the trust deed. UDC announced on 29 July 2019 that it had decided to exercise its right to redeem all UDC secured investments, and all UDC secured investments were repaid or transferred to deposits in the Bank on 14 October 2019.
- Specified residential mortgages provided as security for notes and bonds issued to investors as part of the Banking Group's covered bond programmes.

The carrying amounts of assets pledged as security are as follows:

	2019 NZ$m	2018 NZ$m
Securities sold under agreements to repurchase[1]	203	517
Assets pledged as collateral for UDC secured investments	3,484	3,296
Residential mortgages pledged as security for covered bonds	11,600	10,747

1 The amounts disclosed as securities sold under arrangements to repurchase include both:
- assets pledged as security which continue to be recognised on the Banking Group's balance sheet; and
- assets repledged, which are included in the disclosure below.

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The Banking Group has received collateral associated with various financial instruments. Under certain transactions the Banking Group has the right to sell, or to repledge, the collateral received. These transactions are governed by standard industry agreements.

The fair value of collateral we have received and that we have sold or repledged is as follows:

	2019 NZ$m	2018 NZ$m
Fair value of assets which can be sold or repledged	300	139
Fair value of assets sold or repledged	81	34

NOTES TO THE FINANCIAL STATEMENTS

18. OFFSETTING

We offset financial assets and financial liabilities in the balance sheet (in accordance with NZ IAS 32 *Financial Instruments: Presentation*) when there is:

- a current legally enforceable right to set off the recognised amounts in all circumstances; and
- an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

If the above conditions are not met, the financial assets and financial liabilities are presented on a gross basis.

The Banking Group does not have any arrangements that satisfy the conditions necessary to offset financial assets and financial liabilities within the balance sheet. The following table identifies financial assets and financial liabilities which have not been offset but are subject to enforceable master netting agreements (or similar arrangements) and the related amounts not offset in the balance sheet. We have not taken into account the effect of over collateralisation.

			Amount subject to master netting agreement or similar			
2019	Total amounts recognised in the balance sheet NZ$m	Amounts not subject to master netting agreement or similar NZ$m	Total NZ$m	Financial instruments NZ$m	Financial collateral (received)/ pledged NZ$m	Net amount NZ$m
Derivative financial instruments	11,666	(3,061)	8,605	(6,468)	(541)	1,596
Reverse repurchase agreements [1]	297	-	297	-	(297)	-
Total financial assets	11,963	(3,061)	8,902	(6,468)	(838)	1,596
Derivative financial instruments	(11,042)	2,340	(8,702)	6,468	858	(1,376)
Repurchase agreements [2]	(203)	-	(203)	-	203	-
Total financial liabilities	(11,245)	2,340	(8,905)	6,468	1,061	(1,376)
2018						
Derivative financial instruments	8,086	(1,029)	7,057	(5,711)	(481)	865
Reverse repurchase agreements [1]	136	-	136	-	(136)	-
Total financial assets	8,222	(1,029)	7,193	(5,711)	(617)	865
Derivative financial instruments	(8,095)	694	(7,401)	5,711	563	(1,127)
Repurchase agreements [2]	(517)	-	(517)	-	517	-
Total financial liabilities	(8,612)	694	(7,918)	5,711	1,080	(1,127)

1 Reverse repurchase agreements are presented in the balance sheet within cash and cash equivalents.
2 Repurchase agreements are presented in the balance sheet within deposits and other borrowings.

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	Note	2019 NZ$m	2018 NZ$m
Goodwill		3,160	3,230
Software		40	53
Other intangibles:			
Management rights (indefinite life)		76	76
Acquired portfolios of insurance business		-	31
Goodwill and other intangible assets (including assets reclassified as held for sale)		3,276	3,390
Less: Goodwill and other intangible assets reclassified as held for sale	26	-	(101)
Goodwill and other intangible assets		3,276	3,289

GOODWILL ALLOCATED TO CASH-GENERATING UNITS (CGUs)

An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purposes of impairment testing, goodwill is allocated at the date of acquisition to a CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount.

To estimate the recoverable amount of the CGU to which each goodwill component is allocated, we use a value-in-use approach.

VALUE-IN-USE

These calculations use cash flow projections based on a number of financial budgets within each segment approved by management covering a three year period. Cash flow projections are based on a range of readily available economic assumptions including GDP and the Consumer Price Index. Cash flows beyond the three year period are extrapolated using a 2% growth rate.

These cash flow projections are discounted using a capital asset pricing model. As at 28 February 2019 when the last valuation was prepared, a discount rate of 11.1% was applied to each cash generating unit. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on a blended yield rate between the 10 year New Zealand government bond rate and the associated 5 year forward rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each segment.

Management believes any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of goodwill for any CGU to exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

RECOGNITION AND MEASUREMENT

The table below details how we recognise and measure different intangible assets:

Intangible	Goodwill	Software	Other Intangible Assets
Definition	Excess amount the Banking Group has paid in acquiring a business over the fair value less costs of disposal of the identifiable assets and liabilities acquired.	Purchases of "off the shelf" software assets are capitalised as assets. Internal and external costs incurred in building software and computer systems costing greater than NZ$20 million are capitalised as assets. Those less than NZ$20 million are expensed in the year in which the costs are incurred.	Acquired portfolios of insurance business and management fee rights.
Carrying value	Cost less any accumulated impairment losses. Allocated to the cash generating unit to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised.	Initially, measured at fair value at acquisition. Subsequently, carried at fair value less accumulated amortisation and impairment losses.
Useful life	Indefinite. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment.	Except for major core infrastructure, amortised over periods between 3-5 years. Major core infrastructure amortised over periods between 7-10 years.	Acquired portfolios of insurance business are amortised over 20 years. Management fee rights have an indefinite life and are reviewed for impairment at least annually or when there is an indication of impairment.
Amortisation method	Not applicable.	Straight-line method.	Actuarial methods consistent with the calculation of life insurance contract assets.

KEY JUDGEMENTS AND ESTIMATES

Management judgement is used to assess the recoverable value of goodwill, and other intangible assets, and the useful economic life of an asset, or if an asset has an indefinite life. We reassess the recoverability of the carrying value at each reporting date.

The carrying amount of goodwill is based on judgements including the basis of assumptions and forecasts used for determining earnings for CGUs, headroom availability, and sensitivities of the forecasts to reasonably possible changes in assumptions. Goodwill is assessed for indicators of impairment quarterly and tested for impairment annually. The level at which goodwill is allocated, the estimation of future cash flows and the selection of discount rates or earnings multiples applied requires significant judgement.

At each balance date, software and other intangible assets are assessed for indicators of impairment. In addition, software and intangible assets not ready for use are tested annually for impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the carrying value of the asset is written down immediately.

In addition, the expected useful life of intangible assets, including software assets, are assessed on an annual basis. The assessment requires management judgement, and in relation to our software assets, a number of factors can influence the expected economic useful lives. These factors include changes to business strategy, significant divestments and the underlying pace of technological change.

20. OTHER PROVISIONS

	Note	2019 NZ$m	2018 NZ$m
ECL allowance on undrawn facilities	12	97	-
Customer remediation		139	34
Restructuring costs		25	6
Leasehold make good		23	12
Other		30	24
Total other provisions		314	76

Movements in other provisions

	Customer remediation NZ$m	Restructuring costs NZ$m	Leasehold make good NZ$m	Other NZ$m
Balance at start of year	34	6	12	24
New and increased provisions made during the year	115	52	15	13
Provisions used during the year	(10)	(26)	(4)	(2)
Unused amounts reversed during the year	-	(7)	-	(5)
Balance at end of year	139	25	23	30

Customer remediation

Customer remediation includes provisions for expected refunds to customers and other counterparties, remediation project costs and related customer, counterparty and regulatory claims, penalties and litigation outcomes.

Restructuring costs

Provisions for restructuring costs arise from activities related to material changes in the scope of business undertaken by the Banking Group, including the OnePath separation, or the manner in which that business is undertaken and include employee termination benefits. Costs relating to on-going activities are not provided for and are expensed as incurred.

Leasehold make good

Provisions associated with leased premises where, at the end of a lease, the Banking Group is required to remove any fixtures and fittings installed in the leased property. This obligation arises immediately upon installation. Estimated make good costs are added to the leasehold improvement asset (within premises and equipment) upon installation and amortised over the lease term.

Other

Other provisions comprise various other provisions including losses arising from other legal action, operational issues, and warranties and indemnities provided in connection with various disposals of businesses and assets.

NOTES TO THE FINANCIAL STATEMENTS

20. OTHER PROVISIONS (continued)

RECOGNITION AND MEASUREMENT

The Banking Group recognises provisions where there is a present obligation arising from a past event, an outflow of economic resources is probable, and the amount of the provision can be measured reliably.

The amount recognised is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the timing and amount of the obligation. Where a provision is measured using the estimated cash flows required to settle the present obligation, its carrying amount is the present value of those cash flows.

KEY JUDGEMENTS AND ESTIMATES

The Banking Group holds provisions for various obligations including customer remediation, restructuring costs, leasehold make good and litigation related claims. These provisions involve judgements regarding the outcome of future events, including estimates of expenditure required to satisfy such obligations. Where relevant, expert legal advice has been obtained and, in light of such advice, provisions and/or disclosures as deemed appropriate have been made.

In relation to customer remediation, determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including, the number of impacted customers, the average refund per customer and the associated remediation costs. Consequently, the appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence and adjustments are made to the provisions where appropriate.

21. SHAREHOLDERS' EQUITY

	Number of issued shares		NZ$ millions	
	2019	2018	2019	2018
Ordinary shares				
Ordinary shares at start of year	6,345,755,498	3,345,755,498	11,588	8,588
Ordinary shares issued during the year	-	3,000,000,000	-	3,000
Ordinary shares at end of year[1]	6,345,755,498	6,345,755,498	11,588	11,588
Preference shares	300,000,000	300,000,000	300	300
Total share capital	6,645,755,498	6,645,755,498	11,888	11,888

[1] Includes 650,712 (2018: 650,712) uncalled shares.

Preference shares

The key terms of the preference shares are as follows:

Dividends

Dividends are payable at the discretion of the Directors of the Bank and are non-cumulative. The Bank must not resolve to pay any dividend or make any other distribution on its ordinary shares until the next preference dividend payment date if the dividend on the preference shares is not paid.

Should the Bank elect to pay a dividend, the dividend is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 325 basis point margin, multiplied by one minus the New Zealand company tax rate, with dividend payments due on 1 March and 1 September each year.

Redemption features

The preference shares are redeemable, subject to prior written approval of RBNZ, by the Bank providing notice in writing to holders of the preference shares:

- on any date on or after a change to laws or regulations that adversely affects the regulatory capital or tax treatment of the preference shares; or
- on any dividend payment date; or
- on any date if the Bank has ceased to be a wholly owned subsidiary of the Ultimate Parent Bank.

The preference shares may be redeemed for nil consideration should a non-viability trigger event occur.

The preference shares qualify as AT1 capital for RBNZ's capital adequacy purposes.

RECOGNITION AND MEASUREMENT

Ordinary shares	Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Bank, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to: • on a show of hands, one vote; and • on a poll, one vote, for each share held.
Preference shares	All preference shares were issued by the Bank to the Immediate Parent and do not carry any voting rights. The preference shares are wholly classified as equity instruments as there is no contractual obligation for the Bank to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavourable basis. In the event of liquidation, holders of preference shares are entitled to available subscribed capital per share, pari passu with all holders of existing preference shares and ANZ capital notes but in priority to all holders of ordinary shares. They have no entitlement to participate in further distribution of profits or assets.
Reserves:	
Cash flow hedge reserve	Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments, net of deferred taxes to be realised when the underlying impacts profit and loss.
Investment securities revaluation reserve	Includes the changes in fair value and exchange differences on our revaluation of investment securities financial assets, net of deferred taxes to be realised upon disposal of the asset.

NOTES TO THE FINANCIAL STATEMENTS

22. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

The Banking Group's core capital objectives are to:

- protect the interests of depositors, creditors and shareholders;
- ensure the safety and soundness of the Banking Group's capital position; and
- ensure that the capital base supports the Banking Group's risk appetite, and strategic business objectives, in an efficient and effective manner.

The Board holds ultimate responsibility for ensuring that capital adequacy is maintained. This includes: setting, monitoring and obtaining assurance for the Banking Group's Internal Capital Adequacy Assessment Process (ICAAP) policy and framework; standardised risk definitions for all material risks; materiality thresholds; capital adequacy targets; internal capital principles; and risk appetite.

The Banking Group has minimum and trigger levels for common equity tier 1, tier 1 and total capital that ensure sufficient capital is maintained to:

- meet minimum prudential requirements imposed by regulators;
- ensure consistency with the Banking Group's overall risk profile and financial positions, taking into account its strategic focus and business plan; and
- support the internal risk capital requirements of the business.

ALCO and its related Capital Management Forum are responsible for developing, implementing and maintaining the Banking Group's ICAAP framework, including ongoing monitoring, reporting and compliance. The Banking Group's ICAAP is subject to independent and periodic review conducted by Internal Audit.

In April 2019, the Bank informed RBNZ that in the course of a self-review, the Bank discovered that it had not been using an approved model for the calculation of the operational risk capital requirement since December 2014. RBNZ has required the Banking Group to use the standardised approach to the calculation of its operational risk capital requirement from 31 March 2019.

Throughout the year, the Banking Group maintained compliance with RBNZ's minimum capital ratios.

REGULATORY ENVIRONMENT

As the Bank is a registered bank in New Zealand, it is primarily regulated by RBNZ under the Reserve Bank of New Zealand Act 1989. The Bank must comply with the minimum regulatory capital requirements, capital ratios and specific reporting levels that RBNZ sets. RBNZ requirements are summarised below:

	Regulatory capital definition	Minimum capital ratios
Common Equity Tier 1 (CET1) capital	Comprises ordinary share capital, retained earnings, and certain accounting reserves. Some amounts (e.g. the value of goodwill) must be deducted to determine the final value of CET1 capital.	CET1 capital divided by total risk weighted assets must be at least 4.5%.
Tier 1 capital	CET1 capital plus additional tier 1 instruments, which comprise high-quality capital and must: • provide a permanent and unrestricted commitment of funds; • be freely available to absorb losses; and provide for fully discretionary capital distributions.	Tier 1 capital divided by total risk weighted assets must be at least 6.0%.
Tier 2 capital	Tier 2 instruments include some subordinated instruments and accounting reserves that are not included in Tier 1 capital. Some amounts are deducted in determining the value of Tier 2 instruments.	No minimum.
Total capital	Tier 1 plus Tier 2 capital.	Total capital divided by total risk weighted assets must be at least 8.0%.
Capital buffer	The Capital buffer is actual CET1 capital in excess of any of the minimum capital requirements imposed on the Bank.	Capital buffer divided by total risk weighted assets should be at least 2.5%.

	Reporting levels
Solo consolidated	The registered bank plus subsidiaries which are funded exclusively and wholly owned by the registered bank.
Banking Group	The registered bank's consolidated group.

The Bank measures capital adequacy and reports to RBNZ on a Banking Group basis monthly, and measures capital adequacy on a Solo consolidated basis quarterly. Banking Group and Solo consolidated capital ratios are reported publicly in six-monthly disclosure statements.

22. CAPITAL MANAGEMENT (continued)

CAPITAL ADEQUACY

The following table provides details of the Banking Group's capital ratios at 30 September:

Unaudited	2019 NZ$m	2018 NZ$m
Qualifying capital		
Tier 1		
Shareholder's equity	14,430	13,109
Preference shares included in Additional Tier 1 capital	(300)	(300)
Gross Common Equity Tier 1 capital	14,130	12,809
Deductions	(3,684)	(3,728)
Common Equity Tier 1 capital	10,446	9,081
Additional tier 1 capital	2,780	2,776
Tier 1 capital	13,226	11,857
Tier 2 capital	-	-
Total capital	13,226	11,857
Capital adequacy ratios		
Common Equity Tier 1	10.8%	11.1%
Tier 1	13.6%	14.4%
Total	13.6%	14.4%
Buffer ratio	5.6%	6.4%
Risk weighted assets	97,070	82,147

23. CONTROLLED ENTITIES

The following table lists the principal subsidiaries of the Bank. Principal subsidiaries are those that have transactions or balances with parties outside the Banking Group. All subsidiaries are 100% owned and incorporated in New Zealand.

ANZ Bank New Zealand Limited	Nature of business Registered bank
Principal subsidiaries	
ANZ Investment Services (New Zealand) Limited	Funds management
ANZ New Zealand (Int'l) Limited	Finance
ANZ New Zealand Investments Limited	Funds management
ANZ New Zealand Securities Limited	Non-operating (previously on-line share broker)
ANZNZ Covered Bond Trust[1]	Securitisation entity
Arawata Assets Limited	Property
Karapiro Investments Limited	Asset finance
Kingfisher NZ Trust 2008-1[1]	Securitisation entity
UDC Finance Limited	Asset finance

1 The Banking Group does not own ANZNZ Covered Bond Trust and Kingfisher NZ Trust 2008-1. Control exists as the Banking Group retains substantially all the risks and rewards of the operations. Details of the Banking Group's interest in consolidated structured entities is included in Note 24 Structured Entities.

Changes in controlled entities

OnePath was sold to Cigna Corporation on 30 November 2018 (see Note 26 Divestments).

RECOGNITION AND MEASUREMENT

The Banking Group subsidiaries are those entities it controls through:

- being exposed to, or having rights to, variable returns from the entity; and
- being able to affect those returns through its power over the entity.

The Banking Group assesses whether it has power over those entities by examining the Banking Group's existing rights to direct the relevant activities of the entity.

24. STRUCTURED ENTITIES

A Structured Entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities (being those that significantly affect the entity's returns) are directed by means of contractual arrangement. A SE often has some or all of the following features or attributes:

- restricted activities;
- a narrow and well defined objective;
- insufficient equity to permit the SE to finance its activities without subordinated financial support; and
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

SEs are classified as subsidiaries and consolidated when control exists. If the Banking Group does not control a SE, then it is not consolidated. This note provides information on both consolidated and unconsolidated SEs.

The Banking Group's involvement with SEs is as follows:

Type	Details
Securitisation	The Banking Group uses the Kingfisher NZ Trust 2008-1 (the Kingfisher Trust) to securitise residential mortgages that it has originated, in order to diversify sources of funding for liquidity management. The Kingfisher Trust is an internal securitisation (bankruptcy remote) vehicle we created for the purpose of structuring assets that are eligible for repurchase under agreements with RBNZ (these are known as 'Repo eligible'). The Banking Group is exposed to variable returns from its involvement with the Kingfisher Trust and has the ability to affect those returns through its power over the Kingfisher Trust's activities. The Kingfisher Trust is therefore consolidated. As at 30 September 2019 and 30 September 2018 the Banking Group had not entered into any repurchase agreements with RBNZ for residential mortgage backed securities issued and therefore no collateral had been accepted by RBNZ under this facility. Additionally, the Banking Group may acquire interests in securitisation vehicles set up by third parties through providing lending facilities to, or holding securities issued by, such entities.
ANZNZ Covered Bond Trust (the Covered Bond Trust)	Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied. The Banking Group is exposed to variable returns from its involvement with the Covered Bond Trust and has the ability to affect those returns through its power over the Covered Bond Trust's activities. The Covered Bond Trust is therefore consolidated.
Structured finance arrangements	The Banking Group is involved with SEs established: • in connection with structured lending transactions to facilitate debt syndication and/or to ring-fence collateral; and • to own assets that are leased to customers in structured leasing transactions. The Banking Group may provide risk management products (derivatives) to the SE. In all instances, the Banking Group does not control these SEs. Further, the Banking Group's involvement does not establish more than a passive interest in decisions about the relevant activities of the SE, and accordingly we do not consider that interest disclosable.
Funds management activities	The Banking Group is the scheme manager for a number of Managed Investment Schemes (MIS). These MIS include the ANZ and OneAnswer branded KiwiSaver, retail and wholesale schemes and the Bonus Bonds Scheme. These MIS are financed through the issue of units to investors and the Banking Group considers them to be SEs. The Banking Group's interests in these MIS is limited to receiving fees for services or providing risk management products (derivatives). These interests do not create significant exposures to the MIS that would allow the Banking Group to control the funds. Therefore, these MIS are not consolidated.

24. STRUCTURED ENTITIES (continued)

CONSOLIDATED STRUCTURED ENTITIES

Financial or other support provided to Consolidated Structured Entities

The Bank provides lending facilities, derivatives and commitments to the Kingfisher Trust and the Covered Bond Trust and/or holds debt instruments that they have issued. The Bank did not provide any non-contractual support to consolidated SEs during the year (2018: nil).

UNCONSOLIDATED STRUCTURED ENTITIES

The Banking Group's interest in Unconsolidated Structured Entities

An 'interest' in an unconsolidated SE is any form of contractual or non-contractual involvement with an SE that exposes the Banking Group to variability of returns from the performance of that SE. These interests include, but are not limited to: holdings of debt or equity securities; derivatives that pass on risks specific to the performance of the SE; lending; loan commitments; financial guarantees; and fees from funds management activities.

For the purpose of disclosing interests in unconsolidated SEs:

- no disclosure is made if the Banking Group's involvement is not more than a passive interest - for example: when the Banking Group's involvement constitutes a typical customer-supplier relationship. On this basis, exposures to unconsolidated SEs that arise from lending, trading and investing activities are not considered disclosable interests - unless the design of the structured entity allows the Banking Group to participate in decisions about the relevant activities (being those that significantly affect the entity's returns).
- 'interests' do not include derivatives intended to expose the Banking Group to market risk (rather than performance risk specific to the SE) or derivatives through which the Banking Group creates, rather than absorbs, variability of the unconsolidated SE (such as purchase of credit protection under a credit default swap).

The Banking Group earned funds management fees from its MIS of NZ$198 million (2018: NZ$191 million) during the year. Size of these MIS is indicated by Funds Under Management which varies by fund, with a maximum value of approximately NZ$3.3 billion (2018: NZ$3.3 billion).

The Banking Group did not provide any non-contractual support to unconsolidated SEs during the year (2018: nil): nor does it have any current intention to provide financial or other support to unconsolidated SEs.

SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES

The Banking Group may also sponsor unconsolidated SEs in which it has no disclosable interest.

For the purposes of this disclosure, the Banking Group considers itself the 'sponsor' of an unconsolidated SE if it is the primary party involved in the design and establishment of that SE and:

- the Banking Group is the major user of that SE; or
- the Banking Group's name appears in the name of that SE, or on its products; or
- the Banking Group provides implicit or explicit guarantees of that SE's performance.

The Bank has sponsored the ANZ PIE Fund, which invests only in deposits with the Bank. The Banking Group does not provide any implicit or explicit guarantees of the capital value or performance of investments in the ANZ PIE Fund. There was no income received from, nor assets transferred to, this entity during the year.

KEY JUDGEMENTS AND ESTIMATES

Significant judgement is required in assessing whether control exists over Structured Entities involved in securitisation activities, structured finance transactions and investment funds. Judgement is required in relation to the existence of:

- power over the relevant activities (being those that significantly affect the entity's returns); and
- exposure to variable returns of that entity.

25. TRANSFERS OF FINANCIAL ASSETS

In the normal course of business the Banking Group enters into transactions where it transfers financial assets directly to third parties. These transfers may give rise to the Banking Group fully, or partially, derecognising those financial assets - depending on the Banking Group's exposure to the risks and rewards or control over the transferred assets. If the Banking Group retains substantially all of the risk and rewards of a transferred asset, the transfer does not qualify for derecognition and the asset remains on the Banking Group's balance sheet in its entirety.

Covered bonds

The Banking Group operates a covered bond programme to raise funding. Refer to Note 24 Structured Entities for further details. The covered bonds issued externally are included within debt issuances.

Repurchase agreements

When the Banking Group sells securities subject to repurchase agreements under which we retain substantially all the risks and rewards of ownership, then those assets do not qualify for derecognition. An associated liability is recognised for the consideration received from the counterparty.

The table below sets out the balance of assets transferred that do not qualify for derecognition, along with the associated liabilities:

	Covered bonds		Repurchase agreements	
	2019 NZ$m	2018 NZ$m	2019 NZ$m	2018 NZ$m
Current carrying amount of assets transferred	11,600	10,747	203	517
Carrying amount of associated liabilities	4,460	3,929	203	517

26. DIVESTMENTS

OnePath and Paymark

On 30 November 2018, the Banking Group sold OnePath to Cigna Corporation and on 11 January 2019, the Banking Group sold its 25% shareholding in Paymark to Ingenico Group. The Banking Group recognised net gains on sale of NZ$66 million and NZ$39 million respectively, which are included in other operating income.

Assets and liabilities sold

	NZ$m
Investments backing insurance contract liabilities	101
Other assets, net of amounts payable to the Bank	6
Life insurance contract assets	675
Investments in associates - Paymark	7
Goodwill and other intangible assets	101
Total assets	890
Deposits and other borrowings (deposits with the Bank)	(50)
Current tax liabilities	18
Deferred tax liabilities	178
Payables and other liabilities	146
Provisions	2
Total liabilities	294
Net assets sold	596

27. RELATED PARTY DISCLOSURES

Key management personnel and their related parties

Key management personnel (KMP) are defined as directors and those executives having authority and responsibility for planning, directing and controlling the activities of the Banking Group. Executive roles included in KMP are the Bank's Chief Executive Officer (CEO), all executives reporting directly to the Bank's CEO, and the CEO – NZ Branch.

Key management personnel compensation[1]	2019 NZ$000	2018 NZ$000
Salaries and short-term employee benefits[2]	10,827	11,738
Post-employment benefits[3]	297	219
Other long-term benefits[4]	39	38
Termination benefits[5]	2,233	452
Share-based payments	2,242	3,308
Total	15,638	15,755

1 Includes former disclosed KMPs until the end of their employment.
2 Includes restatement of prior year amount to include items previously characterised as business related expenses that would more appropriately be characterised as non-business related. Similar items existed in the prior periods between 2010-2017 which would have increased the short-term benefits by less than NZ$0.1m per annum. Prior year amount has also been restated to include fringe benefit tax paid on short-term benefits, additional fees paid to a director, and the reclassification of annual and long service leave paid on termination to termination benefits.
3 Includes restatement of prior year amount to reclassify retirement allowances paid on termination to termination benefits.
4 Comprises long service leave accrued during the year.
5 Includes payments for accrued annual leave, long service leave and pay in lieu of notice in accordance with contract, payable on cessation. Comparative amounts have been updated to include payments of accrued annual and long service leave on termination previously included in salaries and short-term benefits, and payments of retirement allowances on termination previously included in post-employment benefits.

Transactions and balances with key management personnel and their related parties[1]	2019 NZ$m	2018 NZ$m
Secured loans and advances	23	19
Credit related commitments (undrawn loan facilities)	5	4
Interest income	1	1
Customer deposits	14	18
Payables and other liabilities (share-based payments liability)	2	3

1 Includes KMP, close family members of KMP and entities that are controlled or jointly controlled by KMP or their close family members, of the Banking Group and its parent companies. Comparative amounts have been updated for consistency with current period presentation.

Loans made to KMP and their related parties are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate. No amounts have been written off or forgiven, or individually assessed allowances for expected credit losses raised in respect of these balances (2018: nil).

All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services. In addition to the amounts above:

- Aggregate amounts for each of unsecured loans and advances, interest expense, fee income, insurance premium income, debt issuances and collectively assessed credit impairment charge and allowance for expected credit losses were less than NZ$1 million for both years presented.
- KMP and their related parties also hold units in MIS managed by the Banking Group. These holdings include NZ$0.2 million (2018: nil) of units in the ANZ PIE Fund, which are invested solely in deposits of the Bank. Other transactions and balances in respect of these, and other, MIS holdings are not disclosed because those MIS are unconsolidated structured entities and not included in the financial statements of the Banking Group.
- A close family member of an executive reporting to the CEO is an employee of the Banking Group and received total compensation of NZ$0.1 million (2018: NZ$0.1 million).
- Some KMP pay the Banking Group for the use of carparks in premises owned or leased by the Banking Group. These amounts were less than NZ$0.1 million (2018: less than NZ$0.1 million)

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

On 31 March 2017, the property was sold to Mr Hisco's wife for NZ$6.9 million. At that time, Mr Hisco was the CEO of the Bank and a member of KMP.

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

This transaction was not separately disclosed in the Banking Group's 2017 financial statements. The Banking Group acknowledges the decision of the Financial Markets Authority that the Banking Group should have disclosed the March 2017 sale as a related party transaction in its 2017 financial statements.

Transactions with other members of the Overseas Banking Group and associates

The Bank and Banking Group undertake transactions with the Immediate Parent Company, the Ultimate Parent Bank, other members of the Overseas Banking Group and associates.

These transactions principally consist of funding and hedging transactions, the provision of other financial and investment services, technology and process support, and compensation for share based payments made to Banking Group employees. Other than noted on the following page, transactions with related parties outside of the Banking Group are conducted on an arm's length basis and on normal commercial terms.

NOTES TO THE FINANCIAL STATEMENTS

27. RELATED PARTY DISCLOSURES (continued)

Transactions	2019 NZ$m	2018 NZ$m
Immediate Parent Company		
Interest expense	-	1
Ordinary shares issued	-	3,000
Dividends paid	411	4,611
Ultimate Parent Bank and other subsidiaries not part of the Banking Group		
Interest income	19	13
Interest expense	135	138
Fee income	4	9
Loss on sale of mortgages to the NZ Branch	-	(1)
Other operating income	24	43
Operating expenses	60	52
Mortgages sold to the NZ Branch	-	302
Mortgages repurchased from the NZ Branch	1,098	1,575
Associates		
Direct fee expense	4	10
Dividends received	3	6
Share of associates' profit	4	5

Outstanding balances	2019 NZ$m	2018 NZ$m
Ultimate Parent Bank and other subsidiaries not part of the Banking Group		
Cash and cash equivalents	79	33
Collateral paid	810	-
Derivative financial instruments	3,933	2,431
Other assets	58	39
Associates		
Investments in associates	-	6
Total due from related parties	4,880	2,509
Immediate Parent Company		
Deposits and other borrowings	33	29
Derivative financial instruments	4	1
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Settlement balances payable	66	125
Collateral received	-	257
Deposits and other borrowings	11	11
Derivative financial instruments	4,777	2,248
Payables and other liabilities	24	30
Debt issuances	1,956	1,945
Associates		
Deposits and other borrowings	1	1
Payables and other liabilities	-	1
Post-employment benefit plans for the benefit of employees of the Banking Group		
Deposits and other borrowings	2	-
Total due to related parties	6,874	4,648

Balances due from / to other members of the Overseas Banking Group and associates are unsecured. The Bank has provided guarantees and commitments to, and received guarantees from, these entities as follows. Fees associated with the provision of financial guarantees to/by the Ultimate Parent Bank may be lower than those for similar transactions with unrelated parties.

	2019 NZ$m	2018 NZ$m
Financial guarantees provided by the Ultimate Parent Bank	456	698
Financial guarantees provided to the Ultimate Parent Bank	114	138
Undrawn credit commitments provided to the Immediate Parent Company	250	250
Undrawn credit commitments provided to associates	1	1

28. COMMITMENTS AND CONTINGENT LIABILITIES

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2019 NZ$m	2018 NZ$m
Contract amount of:		
Undrawn facilities	**26,600**	27,245
Guarantees and letters of credit	**1,248**	1,531
Performance related contingencies	**1,502**	1,329
Total	**29,350**	30,105

UNDRAWN FACILITIES

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be only partially used, and others may never be used at all. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements. Based on the earliest date on which the Banking Group may be required to pay, the total undrawn facilities of NZ$26,600 million (2018: NZ$27,245 million) mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE RELATED CONTINGENCIES

Guarantees, letters of credit and performance related contingencies relate to transactions that the Banking Group has entered into as principal – including: guarantees, standby letters of credit and documentary letters of credit.

Documentary letters of credit involve the Banking Group issuing letters of credit guaranteeing payment in favour of an exporter. They are secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingencies are liabilities that oblige the Banking Group to make payments to a third party if the customer fails to fulfil its non-monetary obligations under the contract.

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply to loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Based on the earliest date on which the Banking Group may be required to pay, the total guarantees and letters of credit of NZ$1,248 million (2018: NZ$1,531 million) and total performance related contingencies of NZ$1,502 million (2018: NZ$1,329 million) mature within 12 months.

PROPERTY RELATED COMMITMENTS

	2019 NZ$m	2018 NZ$m
Property capital expenditure		
Contracts for outstanding capital expenditure (not later than 1 year)	**6**	7
Total capital expenditure commitments for property	**6**	7
Lease rentals		
Land and Buildings[1]	**279**	284
Furniture and equipment	**7**	86
Motor vehicles	**6**	8
Total lease rental commitments	**292**	378
Due within 1 year[1]	**53**	79
Due later than 1 year but not later than 5 years[1]	**148**	203
Due later than 5 years[1]	**91**	96
Total lease rental commitments	**292**	378

1 Comparatives have been restated to exclude costs for services to be paid by and reimbursed to the lessor as required by NZ IAS 17 *Leases*.

OTHER CONTINGENT LIABILITIES

There are outstanding court proceedings, claims and possible claims for and against the Banking Group. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice seriously the interests of the Banking Group in relation to the particular matter.

NOTES TO THE FINANCIAL STATEMENTS

28. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Regulatory and customer exposures

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

Reviews under section 95 of the Reserve Bank of New Zealand Act 1989 (RBNZ Act)

On 5 July 2019 RBNZ issued a notice under section 95 of the RBNZ Act, requiring the Bank to obtain two external reviews, the first on the Bank's compliance with certain aspects of the RBNZ Banking Supervision Handbook document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) and the second on the effectiveness of the Bank's directors' attestation and assurance framework. While the director attestation and assurance framework review has now been completed, and the Bank is committed to implementing the recommendations identified and addressing the issues raised, the review of compliance with capital adequacy requirements is ongoing. On 11 December 2019 RBNZ issued a further notice under section 95 of the RBNZ Act, requiring the Bank to obtain an external review of the improvements made to the Bank's directors' attestation and assurance framework.

Warranties and indemnities

The Banking Group has provided warranties, indemnities and other commitments in favour of the purchaser in connection with various disposals of businesses and assets and other transactions, covering a range of matters and risks. It is exposed to potential claims under those warranties, indemnities and commitments.

29. COMPENSATION OF AUDITORS

	2019 NZ$000	2018 NZ$000
KPMG New Zealand		
Audit or review of financial statements[1]	1,852	2,199
Audit related services:		
Prudential and regulatory services[2]	1,418	212
Offer documents assurance or review	111	104
Other assurance services[3]	53	36
Total audit related services	1,582	352
Total compensation of auditors relating to the Banking Group	3,434	2,551
Fees relating to certain managed funds and not recharged[4]	42	45
Total compensation of auditors	3,476	2,596

1 Includes fees for both the audit of the annual financial statements and reviews of interim financial statements.
2 Includes fees for reviews and controls reports required by regulations.
3 Includes fees for Trustee reporting, reviews and other agreed upon procedures engagements.
4 Amounts relate to the ANZ PIE Fund and certain other funds, and include fees for audits of annual financial statements, controls report and other agreed upon procedures engagements.

The Banking Group's Policy allows KPMG New Zealand to provide assurance and other audit related services that, while outside the scope of the statutory audit, are consistent with the role of an external auditor. The Policy allows certain non-audit services to be provided where the service would not contravene auditor independence requirements. KPMG New Zealand may not provide services that are perceived to be in conflict with the role of the external auditor or breach auditor independence. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the external auditor may ultimately be required to express an opinion on its own work.

30. EVENTS SINCE THE END OF THE FINANCIAL YEAR

UDC announced on 29 July 2019 that it had decided to exercise its right to redeem all UDC secured investments, and all UDC secured investments were repaid or transferred to deposits in the Bank on 14 October 2019.

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

There were no other significant events from 30 September 2019 to the date of signing this Disclosure Statement.

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REGISTERED BANK DISCLOSURES

This section contains the additional disclosures required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

B1. GENERAL DISCLOSURES

Details of ultimate parent bank and ultimate holding company

The ultimate parent bank and ultimate holding company of the Bank is Australia and New Zealand Banking Group Limited (Ultimate Parent Bank). The address for service of the Ultimate Parent Bank is ANZ Centre, Melbourne, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

Restrictions on the Ultimate Parent Bank's ability to provide financial support

Effect of APRA's Prudential Standards

The Banking Group is subject to extensive prudential regulation by APRA. APRA's current or future requirements may have an adverse effect on the Bank's business, results of operations, liquidity, capital resources or financial condition.

APRA Prudential Standard APS 222 *Associations with Related Entities* (APS 222) sets minimum requirements for authorised deposit-taking institutions (ADIs) in Australia, including the Ultimate Parent Bank, in relation to the monitoring, management and control of risks which arise from associations with related entities and also includes maximum limits on intra-group financial exposures.

Under APS 222, the Ultimate Parent Bank's ability to provide financial support to the Bank is subject to the following restrictions:

- the Ultimate Parent Bank should not undertake any third party dealings with the prime purpose of supporting the business of the Bank;
- the Ultimate Parent Bank must not hold unlimited exposures (i.e. should be limited as to specified time or amount) in the Bank (e.g. not provide a general guarantee covering any of the Bank's obligations);
- the Ultimate Parent Bank must not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) triggers or is deemed to trigger a default by the Ultimate Parent Bank on its obligations; and
- the level of exposure, net of exposures deducted from capital, of the Ultimate Parent Bank's Level 1 total capital base to the Bank should not exceed: (A) 50% on an individual exposure basis; or (B) 150% in aggregate (being exposures to all similar regulated ADI equivalent entities related to the Ultimate Parent Bank).

In August 2019, APRA released an update to APS 222, which is to be effective from 1 January 2021. Changes that affect the quantum and nature of the financial support that the Ultimate Parent Bank can provide the Bank are:

- change the Level 1 capital base used for setting the exposure limits from total capital to Tier 1 capital; and
- reduce the ADI exposure limit to 25% of Level 1 Tier 1, and the aggregate to 75% of Level 1 Tier 1 capital base.

APRA has provided for entity-specific transitional arrangements or flexibility on a case-by-case basis.

Further, in October 2019, APRA released a consultation paper on changes to APS 111 *Capital Adequacy* (APS 111), which proposes to change the Level 1 capital treatment for Australian ADIs, such as the Ultimate Parent Bank, investing in ADIs (or overseas equivalents such as the Bank) and insurance subsidiaries. The proposed changes, set for implementation from 1 January 2021, would result in:

- the initial investment, up to an amount equal to 10% of the Ultimate Parent Bank's net Level 1 CET1 capital base, being risk-weighted at 250%; and
- the remainder of the investment being treated as a CET1 capital deduction.

If implemented, these APS 111 changes would reduce the Ultimate Parent Bank's Level 1 Tier 1 capital base and exposure to the Bank for the purposes of APS 222 reporting. As a result, the Ultimate Parent Bank's expected exposure to the Bank at 1 January 2021 would be compliant with the revised APS 222 limits.

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

APRA has also confirmed that contingent funding support by the Ultimate Parent Bank to the Bank during times of financial stress must be provided on terms that are acceptable to APRA. At present, only covered bonds meet APRA's criteria for contingent funding.

Effect of the Level 3 framework

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

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

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

These requirements are not expected to place additional restrictions on the Ultimate Parent Bank's ability to provide financial or operational support to the Bank.

Other APRA powers

The Ultimate Parent Bank may not provide financial support in breach of the Australian Banking Act 1959 (the Banking Act). Under the Banking Act:

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

The requirements of the Banking Act and the exercise by APRA of its powers have the potential to impact the management of the liquidity of the Bank.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

Interests in 5% or more of voting securities of the Bank

The Immediate Parent Company holds 100% of the voting securities of the Bank. The Immediate Parent Company has the direct ability to appoint 100% of the Directors of the Bank, subject to RBNZ advising that is has no objection to the appointment in accordance with the Bank's conditions of registration. RBNZ also has the power under section 113B of the Reserve Bank of New Zealand Act 1989, after obtaining the consent of the Minister of Finance, to remove, replace, or appoint directors in certain circumstances.

Priority of creditors' claims

In the event that the Bank was put into liquidation or ceased to trade, claims of secured creditors and those creditors set out in Schedule 7 of the Companies Act 1993 would rank ahead of the claims of unsecured creditors. Customer deposits, except UDC secured investments, are unsecured and rank equally with other unsecured liabilities of the Bank, and such liabilities rank ahead of any subordinated instruments issued by the Bank.

Guarantees

The Bank has guaranteed the payment of interest and principal of covered bonds issued by its subsidiary ANZ New Zealand (Int'l) Limited. This obligation is guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations. The covered bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Refer to page 31 for further details, and to page 49 for the amount of assets of the ANZ Covered Bond Trust pledged as security for covered bonds.

No other material obligations of the Bank are guaranteed as at 12 December 2019.

Auditors

KPMG, 18 Viaduct Harbour Avenue, Auckland, New Zealand.

Directors

Any document or communication may be sent to any Director at the Registered Office. The document or communication should be marked for the attention of that Director.

Transactions with Directors

No Director has disclosed that he/she or any immediate relative or professional associate has any dealing with the Banking Group which has been either entered into on terms other than those which would in the ordinary course of business be given to any other person of like circumstances or means or which could otherwise be reasonably likely to influence materially the exercise of the Director's duties as a Director of the Bank.

Board Audit Committee

There is a Board Audit Committee which covers audit matters. The committee has five members. Each member is a non-executive Director, the majority of whom satisfy the criteria for independence.

Policy of the Board of Directors for avoiding or dealing with conflicts of interest

In order to ensure that members of the Board are reminded of their disclosure obligations under the Companies Act 1993, the following procedures are adopted:

- at least once in each year, Directors are requested to confirm and disclose, in terms of section 140(1) of the Companies Act 1993, any interests which they have with the Bank itself. Directors are reminded at this time of their obligation under the Companies Act 1993 to disclose promptly any transaction or proposed transaction with the Bank in which they have an interest.
- Directors are also requested to confirm and make a general disclosure of their interest in other entities in terms of section 140(2) of the Companies Act 1993.

In addition to the disclosures referred to above, Directors disclose relevant interests which they have before discussion of particular business items.

Disclosures are entered into the Bank's Interests Register.

The Companies Act 1993 allows a Director with an interest in a transaction to participate in discussions and to vote on all matters relating to that particular transaction. However, the Board has adopted a guideline whereby a Director with an interest in a transaction should not be present during any discussions, and should not vote, on any matter pertaining to that particular transaction.

B1. GENERAL DISCLOSURES (continued)



	Rt Hon Sir John Key, GNZM AC	Antony Carter	Shayne Elliott
Position	Independent Non-Executive Director and Chair	Independent Non-Executive Director	Non-Executive Director
Occupation	Company Director	Company Director	Chief Executive Officer, Australia and New Zealand Banking Group Ltd
Qualifications	BCom, DCom (Honoris Causa)	BE (Hons), ME, MPhil, CFInstD, FNZIM	BCom
Resides	Auckland, New Zealand	Auckland, New Zealand	Melbourne, Australia
Other company directorships	Air New Zealand Ltd, Australia and New Zealand Banking Group Ltd, MTK Capital Ltd, Palo Alto Networks Inc, Thirty Eight JK Ltd	Avonhead Mall Ltd, Datacom Group Ltd, Fisher & Paykel Healthcare Corporation Ltd, Fisher & Paykel Healthcare Employee Share Purchase Trustee Ltd, Loughborough Investments Ltd, Modern Merchants Ltd, Strategic Interchange Ltd, Tetrad Corporation Ltd, T R Group Ltd, Vector Ltd	Australia and New Zealand Banking Group Ltd, Financial Markets Foundation for Children


	Alison Gerry	Michelle Jablko
Position	Independent Non-Executive Director	Non-Executive Director
Occupation	Company Director	Chief Financial Officer, Australia and New Zealand Banking Group Ltd
Qualifications	BMS (Hons), MAppFin, CFInstD	LLB (Hons), B.Ec (Hons)
Resides	Queenstown, New Zealand	Melbourne, Australia
Other company directorships	Asteron Life Ltd, Avokaha Ltd, Glendora Avocados Ltd, Glendora Holdings Ltd, Infratil Ltd, Lindis Crossing Vineyard Ltd, On Being Bold Ltd, Sharesies Ltd, Sharesies Nominee Ltd, Vero Insurance New Zealand Ltd, Vero Liability Insurance Ltd, Wellington International Airport Ltd	ANZ Holdings (New Zealand) Ltd, Bialik College Ltd


	Mark Verbiest	Joan Withers
Position	Independent Non-Executive Director	Independent Non-Executive Director
Occupation	Company Director	Company Director
Qualifications	LLB, CFInstD	MBA, CFInstD
Resides	Wanaka, New Zealand	Auckland, New Zealand
Other company directorships	Bear Fund NZ Ltd, Freightways Ltd, Meridian Energy Ltd, Willis Bond Capital Partners Ltd, Willis Bond General Partner Ltd	On Being Bold Ltd, Sky Network Television Ltd, The Warehouse Group Ltd, The Warehouse Planit Trustees Ltd, The Warehouse Management Trustee Company Ltd, The Warehouse Management Trustee Company No.2 Ltd

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

Conditions of registration

The following conditions of registration were applicable as at 30 September 2019, and have applied from 30 June 2019.

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

1. That—

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

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

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

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

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

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

For the purposes of this condition of registration, —

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

(a) the greater of:

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

ii. zero;

and

(b) the greater of:

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

ii. zero;

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

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

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

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

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

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

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

1A. That—

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

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

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

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

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

(b) the compendium requirements in section 1.3B;

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

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

B1. GENERAL DISCLOSURES (continued)

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

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

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

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

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

For the purposes of this condition of registration,—

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

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

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

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

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

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

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

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

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

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

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

For the purposes of this condition of registration,—

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

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

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

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

[1] This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's)

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

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

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

6. That the bank complies with the following corporate governance requirements:
   (a) the board of the bank must have at least five directors;
   (b) the majority of the board members must be non-executive directors;
   (c) at least half of the board members must be independent directors;
   (d) an alternate director,—
      (i) for a non-executive director must be non-executive; and
      (ii) for an independent director must be independent;
   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
   (f) the chairperson of the board of the bank must be independent; and
   (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

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

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the bank;
   (d) the majority of the members of the committee must be independent; and
   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

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

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

11. That the bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the bank that are carried on by a person other than the bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the bank or of a service provider to the bank, the following outcomes:
   (a) that the bank's clearing and settlement obligations due on a day can be met on that day;
   (b) that the bank's financial risk positions on a day can be identified on that day;
   (c) that the bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
   (d) that the bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

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

   For the purposes of this condition of registration:
   (a) the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006; and
   (b) the term "existing outsourcing arrangement" is defined in the Reserve Bank of New Zealand document entitled "Outsourcing Policy (BS11)" dated September 2017.

12. That:
   (a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;
   (b) the employment contract of the chief executive officer of the bank or person in an equivalent position (together "CEO") is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank; and
   (c) all staff employed by the bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and be accountable (directly or indirectly) to the CEO of the bank.

B1. GENERAL DISCLOSURES (continued)

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

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

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

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

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

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

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

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

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

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

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

    For the purposes of this condition,—

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

    "SPV" means a person—

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

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

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

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

16. That—

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

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

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

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

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

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

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

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

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

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

        (i) all liabilities are frozen in full; and

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

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

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

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

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

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

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

18. That the bank has an Implementation Plan that—
    (a) is up-to-date; and
    (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS17) dated September 2013.

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

19. That the bank has a compendium of liabilities that—
    (a) at the product-class level lists all liabilities, indicating which are—
        (i) pre-positioned for Open Bank Resolution; and
        (ii) not pre-positioned for Open Bank Resolution;
    (b) is agreed to by the Reserve Bank; and
    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

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

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

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

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

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

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

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

In these conditions of registration,—

"banking group" means ANZ Bank New Zealand Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 21 to 23,—

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2019:

"loan-to-valuation measurement period" means—

(a) the three calendar month period ending on the last day of March 2019; and

(b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of April 2019.

Changes since 31 March 2019

Effective 15 May 2019, the Bank's conditions of registration were amended to require the Banking Group's operational risk capital (ORC) requirement to be calculated in accordance with BS2A.

Effective 30 June 2019, the Bank's conditions of registration were amended to include a supervisory adjustment to the Banking Group's capital adequacy calculations. This supervisory adjustment introduced minimum pre-scalar risk weightings for residential mortgage exposures and corporate farm lending exposures.

Non-compliance with conditions of registration

a) Condition of Registration 1B – compliance with BS2B

A number of reviews of the Banking Group's application of, and compliance with, BS2B have been conducted both internally and by external parties. These reviews have identified the instances of non-compliance with Condition of Registration 1B on the following page.

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

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

B1. GENERAL DISCLOSURES (continued)

Area | **Details**

ORC model

(reported in March 2019 disclosure statement)

In April 2019, the Bank informed RBNZ that in the course of a self-review, the Bank discovered that it had not been using an approved model for the calculation of the ORC requirement since December 2014.

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

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

The RBNZ decided that the Banking Group's ORC requirement would be calculated in accordance with BS2A, and the Bank's Conditions of Registration were amended to this effect from 15 May 2019. As a result, as at 31 March 2019, the Banking Group's ORC requirement increased by NZ$277 million, and its capital ratios decreased by 40 basis points for CET 1 capital and 60 basis points for total capital. Restatement of prior period comparatives was not required.

Credit risk models

The Bank has not complied with condition of registration 1B in relation to the implementation of changes to rating models and processes that were not approved by RBNZ. Affected models and the initial dates of non-compliance are noted below.

Applying the last RBNZ approved methodologies to the affected exposures as at 30 September 2019 would decrease RWA by NZ$47 million (0.05%) in aggregate, which is not sufficient to affect the reported capital ratios.

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

The Bank's model compendium required under section 1.3B of BS2B is not accurate as it includes unapproved model changes. The Bank is working with RBNZ on this issue.

Other calculation matters

Until 31 December 2018, Condition of Registration 1B required compliance with all aspects of BS2B. Effective 1 January 2019, the Bank's conditions of registration were amended to refer to specific sections of BS2B only.

Errors were identified in the calculations of risk-weighted assets that meant that the Bank had not complied with Condition of Registration 1B from the emergence of the errors, as noted in the table below, until 31 December 2018. The Bank does not consider that these errors would have materially affected the reported capital ratios. The effect on RWA of each of these errors as at 30 September 2019 is shown below. The net increase in RWA would change the reported CET 1 capital ratio to 10.7% from 10.8%, but is not sufficient to affect the reported tier 1 and total capital ratios.

Understatement / (overstatement) of RWA	BS2B ref	Error since	30 Sep 19 NZ$m
Credit risk - LGD calculated incorrectly for a small number of farm lending exposures[1]	4.61A	2017	(1)
Credit risk - incorrect EAD factor of 23%, instead of 33%, applied to UDC retail commitments[1]	4.64B	2017	2
Credit risk - exposures incorrectly risk weighted as standardised (100%) rather than advanced (360%)[2]		2017	30
Credit risk - asset value correlation multiplier applied using a threshold of A$100m rather than NZ$120m[3]	4.136A	2013	(10)
Market risk - net interest rate risk for some currency exposures calculated in aggregate rather than individually[2]	7	2008	23
Market risk - modelling of forward interest rate agreements and interest rate futures	7	2008	206
Net understatement / (overstatement) of RWA			**250**
Reported risk weighted assets			97,070
Aggregate error in risk weighted assets (%)			0.26%

1 Issue corrected for the calculation of risk-weighted assets at 30 November 2019.
2 Issue will be corrected for the 31 December 2019 capital adequacy calculation.
3 Issue will be resolved following the necessary system change.

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

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

b) Condition of Registration 5 - Exposures to connected persons not on more favourable terms (BS8)

From time to time, the Bank provides a guarantee or standby letter of credit to a third party in respect of an obligation of a customers of the Ultimate Parent Bank. The Ultimate Parent Bank provides a counter-guarantee or standby letter of credit to the Bank, giving the Bank recourse directly to the Ultimate Parent Bank if the guarantee or standby letter of credit the Bank provides in respect of the customer's obligations is called upon. The Bank charges the Ultimate Parent Bank a fee for this service. However, through an internal review, the Bank identified that since January 2014 this fee has been lower than the fee charged for this same service provided to unrelated banks and, as a result, the Bank has not complied with condition of registration 5. As at 30 September 2018, the value of the exposure was NZ$698 million, and was NZ$456 million across 246 individual transactions at 30 September 2019. The Bank is currently working to establish a revised pricing methodology for these transactions. The Bank anticipates this will be in place for all new transactions entered into after 31 December 2019.

c) Condition of Registration 13 - Liquidity ratios (BS13)

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

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

d) Condition of Registration 24 – Outsourcing (BS11 dated September 2017)

BS11 requires the Bank to apply specified risk mitigants against each outsourcing arrangement. During the year ended 30 September 2019, the Bank outsourced two arrangements to the Overseas Banking Group without the required prescribed contractual terms. These arrangements will be remediated in the year ending 30 September 2020.

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

Other matters under review

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

Reviews under section 95 of the Reserve Bank of New Zealand Act 1989

On 5 July 2019, the RBNZ gave the Bank notice, under section 95 of the Reserve Bank of New Zealand Act 1989, requiring the Bank to engage an external reviewer to provide reports regarding the Bank's compliance with the RBNZ's capital adequacy requirements and the effectiveness of the Bank's director attestation and assurance framework. The scope of the director attestation and assurance framework review also included four case studies covering the ORC breach, mischaracterisation of the former CEO's expenses, transactions relating to the 2017 sale of a residential property to the wife of the former CEO, and the 2018 conditions of registration breach relating to the treatment of commitments jointly held with the Ultimate Parent Bank.

The director attestation and assurance framework review has been completed. The review identified a number of recommendations to improve the director attestation and assurance framework. The Bank accepts the findings of the director attestation and assurance framework review and is committed to implementing the recommendations identified and addressing the issues raised. On 11 December 2019 RBNZ issued a further notice under section 95 of the RBNZ Act, requiring the Bank to obtain an external review of the improvements made to the Bank's directors' attestation and assurance framework.

The Bank is continuing to work with the RBNZ and the external reviewer to undertake the review regarding the Bank's compliance with the RBNZ's capital adequacy requirements.

B1. GENERAL DISCLOSURES (continued)

Other material matters

Outcome of the RBNZ capital review

On 14 December 2018, the RBNZ sought feedback on proposals to reform the amount of regulatory capital required of banks incorporated in New Zealand. On 5 December 2019, the RBNZ released its final decisions in respect of these proposals.

While the increase in capital remains significant, as a result of the consultation process there have been changes to the capital instruments and the transition period to the new regime.

The key changes to the RBNZ final capital requirements relative to the consultation paper are:
- No change in total Tier 1 capital required for the Banking Group of 16%, however the transition period is longer at seven years.
- A greater proportion of the increase is in AT1 capital (2.5% compared to the initial proposal of 1.5%), decreasing the amount of CET1 capital required.
- Redeemable preference shares allowable as AT1 capital. It is anticipated that the Bank will be able to refinance existing internal AT1 securities (issued to the Immediate Parent Company) to external counterparties.

Any changes will be implemented gradually, considering the market is competitive for lending. The Banking Group has already started preparing for the change. Of the Banking Group's NZ$1.8 billion net profit after tax in for the year ended 30 September 2019, approximately 80% has been retained in response to the proposals.

Credit rating

As at 12 December 2019 the Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars. On 9 July 2019, S&P Global Ratings changed the outlook on the Bank from Negative to Stable. On 17 July 2019, Fitch Ratings changed the outlook on the Bank from Stable to Negative.

The Bank's credit ratings are:

Rating agency	Credit rating	Qualification
S&P Global Ratings	AA-	Outlook Stable
Fitch Ratings	AA-	Outlook Negative
Moody's Investors Service	A1	Outlook Stable

The following table describes the credit rating grades available:

	S&P Global Ratings	Moody's Investors Service	Fitch Ratings
The following grades display investment grade characteristics:			
Ability to repay principal and interest is extremely strong. This is the highest investment category.	AAA	Aaa	AAA
Very strong ability to repay principal and interest.	AA	Aa	AA
Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A	A
Adequate ability to repay principal and interest. More vulnerable to adverse changes.	BBB	Baa	BBB
The following grades have predominantly speculative characteristics:			
Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default.	B	B	B
Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	CCC	Caa	CCC
Highest risk of default.	CC to C	Ca to C	CC to C
Obligations currently in default.	D	-	RD & D

Credit ratings from S&P Global Ratings and Fitch Ratings may be modified by the addition of "+" or "-" to show the relative standing within the "AA" to "B" categories. Moody's Investors Service applies numerical modifiers 1, 2, and 3 to each of the "Aa" to "Caa" classifications, with 1 indicating the higher end and 3 the lower end of the rating category.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

Historical summary of financial statements

Income statement	2019 NZ$m	2018 NZ$m	2017 NZ$m	2016 NZ$m	2015 NZ$m
Interest income	**6,423**	6,390	6,198	6,423	6,926
Interest expense	**(3,179)**	(3,240)	(3,161)	(3,421)	(4,051)
Net interest income	**3,244**	3,150	3,037	3,002	2,875
Non-interest income	**946**	1,126	938	852	1,175
Operating income	**4,190**	4,276	3,975	3,854	4,050
Operating expenses	**(1,608)**	(1,517)	(1,468)	(1,599)	(1,512)
Credit impairment charge	**(101)**	(55)	(62)	(150)	(74)
Profit before income tax	**2,481**	2,704	2,445	2,105	2,464
Income tax expense	**(662)**	(751)	(680)	(570)	(681)
Profit after income tax	**1,819**	1,953	1,765	1,535	1,783
Dividends paid	**(411)**	(4,611)	(1,695)	(1,363)	(1,760)
Share capital issued	**-**	3,000	-	-	675
Balance sheet					
Total assets	**169,416**	159,012	153,973	160,819	147,527
Total individually impaired assets	**285**	321	357	426	382
Total impaired assets (i.e. stage 3)	**729**	n/a	n/a	n/a	n/a
Total liabilities	**154,986**	145,903	141,192	148,109	135,074
Equity	**14,430**	13,109	12,781	12,710	12,453

The amounts included in this summary have been taken from the audited financial statements of the Banking Group.

Pending proceedings or arbitration

A description of any pending legal proceedings or arbitration concerning any member of the Banking Group that may have a material adverse effect on the Bank or the Banking Group is included in Note 28 Commitments and Contingent Liabilities.

Directors' statements

The Directors' statement is included on page 98.

Auditor's report

The auditor's report is included on page 99.

Index

The index to the contents of the Disclosure Statement is included on page 2, and an index to the contents of the financial statements is included on page 3.

B2. ADDITIONAL FINANCIAL DISCLOSURES

Additional information on the balance sheet

	2019 NZ$m	2018 NZ$m
Total interest earning and discount bearing assets	**153,298**	145,322
Total interest and discount bearing liabilities	**129,494**	124,625

B2. ADDITIONAL FINANCIAL DISCLOSURES (continued)

Additional information on interest rate sensitivity

The following tables represent the interest rate sensitivity of the Banking Group's assets, liabilities and off-balance sheet instruments by showing the periods in which these instruments may reprice, that is, when interest rates applicable to each asset or liability can be changed.

2019	Total NZ$m	Up to 3 months NZ$m	Over 3 to 6 months NZ$m	Over 6 to 12 months NZ$m	Over 1 to 2 years NZ$m	Over 2 years NZ$m	Not bearing interest NZ$m
Assets							
Cash and cash equivalents	2,363	2,081	-	-	-	-	282
Settlement balances receivable	193	-	-	-	-	-	193
Collateral paid	2,324	2,324	-	-	-	-	-
Trading securities	8,942	650	253	253	1,624	6,162	-
Derivative financial instruments	11,666	-	-	-	-	-	11,666
Investment securities	7,027	256	148	247	1,997	4,378	1
Net loans and advances	132,525	64,764	10,935	23,041	24,522	9,663	(400)
Other financial assets	622	-	-	-	-	-	622
Total financial assets	165,662	70,075	11,336	23,541	28,143	20,203	12,364
Liabilities							
Settlement balances payable	1,607	451	-	-	-	-	1,156
Collateral received	991	991	-	-	-	-	-
Deposits and other borrowings	113,427	70,546	16,367	10,978	2,221	1,520	11,795
Derivative financial instruments	11,042	-	-	-	-	-	11,042
Debt issuances	26,207	3,499	1,486	3,446	4,266	13,510	-
Other financial liabilities	841	213	-	-	-	-	628
Total financial liabilities	154,115	75,700	17,853	14,424	6,487	15,030	24,621
Hedging instruments	-	(6,725)	11,340	698	(9,612)	4,299	-
Interest sensitivity gap	11,547	(12,350)	4,823	9,815	12,044	9,472	(12,257)

Reconciliation of mortgage related amounts

As at 30 September 2019	Note	NZ$m
Term loans - housing[1]	11	84,007
Less: fair value adjustment on mortgages repurchased from the NZ Branch		(1)
Less: housing loans made to corporate customers		(2,109)
Add: unsettled re-purchases of mortgages from the NZ Branch		4
On-balance sheet residential mortgage exposures subject to the IRB approach	B4	81,901
Add: off-balance sheet residential mortgage exposures subject to the IRB approach	B4	8,268
Total residential mortgage exposures subject to the IRB approach (as per LVR analysis)	B4	**90,169**

[1] Term loans – housing includes loans secured over residential property for owner-occupier, residential property investment and business purposes.

B3. ASSET QUALITY

Collectively assessed loss allowances

Collectively assessed loss allowances - Total	Note	Residential mortgages NZ$m	Other retail exposures NZ$m	Corporate exposures NZ$m	Total NZ$m
As at 30 September 2018 (NZ IAS 39)		82	118	182	382
NZ IFRS 9 transition adjustment	1,12	(36)	20	88	72
As at 1 October 2018 (NZ IFRS 9)		46	138	270	454

Collectively assessed loss allowances - recognised in:				
Net loans and advances	46	108	217	371
Provisions	-	30	53	83
As at 1 October 2018 (NZ IFRS 9)	46	138	270	454

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – total

			Stage 3		
Net loans and advances - total	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	160	171	40	130	501
Transfer between stages	29	(40)	3	8	-
New and increased provisions (net of collective provision releases)	(25)	63	(1)	121	158
Write-backs	-	-	-	(48)	(48)
Recoveries of amounts previously written off	-	-	-	(23)	(23)
Credit impairment charge	4	23	2	58	87
Bad debts written-off (excluding recoveries)	-	-	-	(106)	(106)
Add back recoveries of amounts previously written off	-	-	-	23	23
Discount unwind	-	-	-	(8)	(8)
As at 30 September 2019	164	194	42	97	497
Off-balance sheet credit related commitments - total					
As at 1 October 2018	59	22	2	-	83
Transfer between stages	5	(5)	-	-	-
New and increased provisions (net of collective provision releases)	(4)	7	-	11	14
Credit impairment charge	1	2	-	11	14
As at 30 September 2019	60	24	2	11	97

Impacts of changes in gross financial assets on loss allowances - total

Gross loans and advances - total	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	118,878	7,448	331	321	126,978
Net transfers in to each stage	-	1,979	206	203	2,388
Amounts drawn from new or existing facilities	21,123	687	35	105	21,950
Additions	21,123	2,666	241	308	24,338
Net transfers out of each stage	(2,372)	-	-	(16)	(2,388)
Amounts repaid	(14,344)	(1,106)	(128)	(222)	(15,800)
Deletions	(16,716)	(1,106)	(128)	(238)	(18,188)
Amounts written off	-	-	-	(106)	(106)
As at 30 September 2019	123,285	9,008	444	285	133,022
Loss allowance as at 30 September 2019	164	194	42	97	497
Off-balance sheet credit related commitments - total					
As at 1 October 2018	28,882	1,198	11	14	30,105
Net transfers in to each stage	38	29	4	14	85
Amounts drawn from new or existing facilities	3,896	78	1	-	3,975
Additions	3,934	107	5	14	4,060
Net transfers out of each stage	(31)	(45)	-	(9)	(85)
Amounts repaid	(4,294)	(423)	(13)	-	(4,730)
Deletions	(4,325)	(468)	(13)	(9)	(4,815)
Amounts written off	-	-	-	-	-
As at 30 September 2019	28,491	837	3	19	29,350
Loss allowance as at 30 September 2019	60	24	2	11	97

Explanation of how changes in the gross carrying amounts of gross loans and advances contributed to changes in loss allowance

Overall, loss allowances on gross loans and advances have remained stable at approximately 0.4% of gross loans and advances. Loss allowances have increased by NZ$10 million (2%) driven by an increase in the proportion of gross loans and advances in Stage 2 and Stage 3, offset by a net decrease in Stage 3 individually assessed exposures as a result of amounts written-off.

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – residential mortgages

Net loans and advances - residential mortgages	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	13	26	7	21	67
Transfer between stages	11	(10)	-	(1)	-
New and increased provisions (net of collective provision releases)	(6)	9	5	7	15
Write-backs	-	-	-	(5)	(5)
Recoveries of amounts previously written off	-	-	-	-	-
Credit impairment charge / (release)	5	(1)	5	1	10
Bad debts written-off (excluding recoveries)	-	-	-	-	-
Add back recoveries of amounts previously written off	-	-	-	-	-
Discount unwind	-	-	-	-	-
As at 30 September 2019	18	25	12	22	77

Off-balance sheet credit related commitments - residential mortgages					
As at 1 October 2018	-	-	-	-	-
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	-	-	-	-	-
Credit impairment charge	-	-	-	-	-
As at 30 September 2019	-	-	-	-	-

Impacts of changes in gross financial assets on loss allowances - residential mortgages

Gross loans and advances - residential mortgages	Stage 1	Stage 2	Stage 3 Collectively assessed	Stage 3 Individually assessed	Total
As at 1 October 2018	73,992	1,948	203	25	76,168
Net transfers in to each stage	-	815	169	25	1,009
Amounts drawn from new or existing facilities	14,769	360	22	6	15,157
Additions	14,769	1,175	191	31	16,166
Net transfers out of each stage	(1,001)	-	-	(8)	(1,009)
Amounts repaid	(8,632)	(648)	(121)	(23)	(9,424)
Deletions	(9,633)	(648)	(121)	(31)	(10,433)
Amounts written off	-	-	-	-	-
As at 30 September 2019	79,128	2,475	273	25	81,901
Loss allowance as at 30 September 2019	18	25	12	22	77

Off-balance sheet credit related commitments - residential mortgages					
As at 1 October 2018	8,206	26	-	-	8,232
Net transfers in to each stage	-	21	-	-	21
Amounts drawn from new or existing facilities	1,107	4	-	-	1,111
Additions	1,107	25	-	-	1,132
Net transfers out of each stage	(21)	-	-	-	(21)
Amounts repaid	(1,060)	(15)	-	-	(1,075)
Deletions	(1,081)	(15)	-	-	(1,096)
Amounts written off	-	-	-	-	-
As at 30 September 2019	8,232	36	-	-	8,268
Loss allowance as at 30 September 2019	-	-	-	-	-

Explanation of how changes in the gross carrying amounts of residential mortgages contributed to changes in loss allowance

The NZ$10 million (14.9%) increase in loss allowances on residential mortgage exposures is primarily driven by an increase in overall gross carrying amounts, and an increase in the proportion of Stage 2 and Stage 3 collectively assessed exposures. Overall loss allowances and individually impaired exposures remain low, reflecting that approximately 95% of on-balance sheet residential mortgage exposures have loan to valuation ratios not exceeding 80% (refer to page 84).

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – other retail exposures

Net loans and advances - other retail exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	28	55	25	11	119
Transfer between stages	13	(18)	1	4	-
New and increased provisions (net of collective provision releases)	(15)	14	(2)	84	81
Write-backs	-	-	-	(11)	(11)
Recoveries of amounts previously written off	-	-	-	(20)	(20)
Credit impairment charge / (release)	(2)	(4)	(1)	57	50
Bad debts written-off (excluding recoveries)	-	-	-	(74)	(74)
Add back recoveries of amounts previously written off	-	-	-	20	20
Discount unwind	-	-	-	-	-
As at 30 September 2019	26	51	24	14	115
Off-balance sheet credit related commitments - other retail exposures					
As at 1 October 2018	18	10	2	-	30
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	(4)	4	-	-	-
Credit impairment charge / (release)	(1)	1	-	-	-
As at 30 September 2019	17	11	2	-	30

Impacts of changes in gross financial assets on loss allowances - other retail exposures

Gross loans and advances - other retail exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	3,288	315	48	25	3,676
Net transfers in to each stage	-	-	-	38	38
Amounts drawn from new or existing facilities	472	33	4	69	578
Additions	472	33	4	107	616
Net transfers out of each stage	(32)	-	-	(6)	(38)
Amounts repaid	(593)	(43)	(7)	(22)	(665)
Deletions	(625)	(43)	(7)	(28)	(703)
Amounts written off	-	-	-	(74)	(74)
As at 30 September 2019	3,135	305	45	30	3,515
Loss allowance as at 30 September 2019	26	51	24	14	115
Off-balance sheet credit related commitments - other retail exposures					
As at 1 October 2018	4,859	54	4	-	4,917
Net transfers in to each stage	-	8	2	-	10
Amounts drawn from new or existing facilities	312	8	-	-	320
Additions	312	16	2	-	330
Net transfers out of each stage	(10)	-	-	-	(10)
Amounts repaid	(583)	(24)	(3)	-	(610)
Deletions	(593)	(24)	(3)	-	(620)
Amounts written off	-	-	-	-	-
As at 30 September 2019	4,578	46	3	-	4,627
Loss allowance as at 30 September 2019	17	11	2	-	30

Explanation of how changes in the gross carrying amounts of other retail exposures contributed to changes in loss allowance

Loss allowances have decreased by NZ$4 million (2.7%) reflecting the reduction in gross carrying amounts, offset by a net increase in Stage 3 individually assessed exposures.

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – corporate exposures

Net loans and advances - corporate exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	119	90	8	98	315
Transfer between stages	5	(12)	2	5	-
New and increased provisions (net of collective provision releases)	(4)	40	(4)	30	62
Write-backs	-	-	-	(32)	(32)
Recoveries of amounts previously written off	-	-	-	(3)	(3)
Credit impairment charge / (release)	1	28	(2)	-	27
Bad debts written-off (excluding recoveries)	-	-	-	(32)	(32)
Add back recoveries of amounts previously written off	-	-	-	3	3
Discount unwind	-	-	-	(8)	(8)
As at 30 September 2019	120	118	6	61	305
Off-balance sheet credit related commitments - corporate exposures					
As at 1 October 2018	41	12	-	-	53
Transfer between stages	2	(2)	-	-	-
New and increased provisions (net of collective provision releases)	-	3	-	11	14
Credit impairment charge	2	1	-	11	14
As at 30 September 2019	43	13	-	11	67

Impacts of changes in gross financial assets on loss allowances - corporate exposures

Gross loans and advances - corporate exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	41,598	5,185	80	271	47,134
Net transfers in to each stage	-	1,164	37	140	1,341
Amounts drawn from new or existing facilities	5,882	294	9	30	6,215
Additions	5,882	1,458	46	170	7,556
Net transfers out of each stage	(1,339)	-	-	(2)	(1,341)
Amounts repaid	(5,119)	(415)	-	(177)	(5,711)
Deletions	(6,458)	(415)	-	(179)	(7,052)
Amounts written off	-	-	-	(32)	(32)
As at 30 September 2019	41,022	6,228	126	230	47,606
Loss allowance as at 30 September 2019	120	118	6	61	305
Off-balance sheet credit related commitments - corporate exposures					
As at 1 October 2018	15,817	1,118	7	14	16,956
Net transfers in to each stage	38	-	2	14	54
Amounts drawn from new or existing facilities	2,477	66	1	-	2,544
Additions	2,515	66	3	14	2,598
Net transfers out of each stage	-	(45)	-	(9)	(54)
Amounts repaid	(2,651)	(384)	(10)	-	(3,045)
Deletions	(2,651)	(429)	(10)	(9)	(3,099)
Amounts written off	-	-	-	-	-
As at 30 September 2019	15,681	755	-	19	16,455
Loss allowance as at 30 September 2019	43	13	-	11	67

Explanation of how changes in the gross carrying amounts of corporate exposures contributed to changes in loss allowance

The NZ$4 million (1.1%) increase in loss allowances on corporate exposures was primarily driven by an increase in the proportion of Stage 2 collectively assessed exposures, offset by a net decrease in Stage 3 individually assessed exposures.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Past due assets

	2019				2018			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Less than 30 days past due	505	177	413	1,095	595	186	639	1,420
At least 30 days but less than 60 days past due	141	32	85	258	109	31	39	179
At least 60 days but less than 90 days past due	162	18	13	193	105	20	3	128
At least 90 days past due	263	30	31	324	152	34	19	205
Total past due but not individually impaired	1,071	257	542	1,870	961	271	700	1,932

Other asset quality information

Undrawn facilities with individually impaired customers	-	-	19	19	-	-	14	14
Other assets under administration	2	2	-	4	7	2	-	9

Asset quality for financial assets designated at fair value

The Banking Group does not have any loans and advances designated at fair value through profit or loss.

2018 Asset quality disclosure under NZ IAS 39

The below disclosure does not reflect the adoption of NZ IFRS 9 and is prepared under the requirements of the previous NZ IAS 39.

Movement in individually impaired assets

	2018			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Balance at beginning of the period	31	20	306	357
Additions	21	107	267	395
Amounts written off	(1)	(77)	(71)	(149)
Deletions	(26)	(25)	(231)	(282)
Balance at end of the period	25	25	271	321
Individual provision	21	11	98	130

Movement in balances of individual credit impairment allowances

	2018			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Balance at beginning of the period	25	6	121	152
Individual credit impairment charge / (release)				
New and increased provisions	7	90	116	213
Write-backs	(9)	(8)	(66)	(83)
Recoveries of amounts previously written off	-	(21)	(9)	(30)
Individual credit impairment charge / (release)	(2)	61	41	100
Bad debts written off	(1)	(77)	(71)	(149)
Add back recoveries of amounts previously written off	-	21	9	30
Discount unwind	(1)	-	(2)	(3)
Balance at end of the period	21	11	98	130

Movement in balances of collective credit impairment allowances

	2018			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Balance at beginning of the period	75	121	231	427
Charge / (release) to income statement	7	(3)	(49)	(45)
Balance at end of the period	82	118	182	382

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED)

RBNZ Basel III capital ratios

	Banking Group			Bank (Solo Consolidated)	
	RBNZ minimum	2019	2018	2019	2018
Common equity tier 1 capital	4.5%	**10.8%**	11.1%	**9.7%**	9.5%
Tier 1 capital	6.0%	**13.6%**	14.4%	**12.6%**	13.0%
Total capital	8.0%	**13.6%**	14.4%	**12.6%**	13.0%
Buffer ratio	2.5%	**5.6%**	6.4%	**n/a**	n/a

Capital of the Banking Group

As at 30 September 2019	Note	NZ$m
Tier 1 capital		
Common equity tier 1 (CET1) capital		
Paid up ordinary shares issued by the Bank	21	11,588
Retained earnings (net of appropriations)		2,521
Accumulated other comprehensive income and other disclosed reserves[1]	21	21
Less deductions from common equity tier 1 capital		
Goodwill and intangible assets, net of associated deferred tax liabilities		(3,276)
Deferred tax assets less deferred tax liabilities relating to temporary differences		(107)
Cash flow hedge reserve		(27)
Expected losses to the extent greater than total eligible allowances for impairment		(274)
Common equity tier 1 capital		10,446
Additional tier 1 capital		
Preference shares[2]	21	300
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN)[3]	15	500
NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN)[3]	15	1,003
NZD 938m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN2)[3]	15	938
Retained earnings of the Bonus Bonds Scheme[4]		59
Less deductions from additional tier 1 capital		
Surplus retained earnings of the Bonus Bonds Scheme[4]		(20)
Additional tier 1 capital		2,780
Total tier 1 capital		13,226
Tier 2 capital		-
Total capital		13,226

1 Includes the cash flow hedging reserve of NZ$27 million less the investment securities revaluation reserve of NZ$6 million as at 30 September 2019.
2 Classified as equity on the balance sheet under NZ GAAP.
3 Classified as a liability on the balance sheet under NZ GAAP.
4 Bonus Bonds Scheme is not consolidated on the balance sheet under NZ GAAP but is classified as AT1 capital for capital adequacy purposes as set out in BS2B.

Capital requirements of the Banking Group

As at 30 September 2019	Total exposures after credit risk mitigation NZ$m	Risk weighted exposure or implied risk weighted exposure[1] NZ$m	Total capital requirement NZ$m
Total credit risk	190,765	70,031	5,602
Operational risk	n/a	9,720	778
Market risk	n/a	4,788	383
Supervisory adjustment	n/a	12,531	1,003
Total	190,765	97,070	7,766

1 The calculation of capital requirements for total credit risk weighted includes a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

REGISTERED BANK DISCLOSURES

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Credit risk subject to the Internal Ratings Based (IRB) approach

IRB credit exposures by exposure class and customer credit rating

As at 30 September 2019	Probability of default %	Total value NZ$m	Exposure at default NZ$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted assets NZ$m	Minimum capital requirement NZ$m
Corporate							
0 - 2	0.06	67,193	5,382	60	30	1,683	135
3 - 4	0.32	41,489	23,774	37	42	10,555	844
5	1.01	13,937	12,254	33	58	7,546	604
6	2.29	4,764	4,431	35	81	3,809	305
7 - 8	15.25	2,406	2,045	38	165	3,580	286
Default	100.00	317	315	44	173	578	46
Total corporate exposures	1.93	130,106	48,201	39	54	27,751	2,220
Sovereign							
0	0.01	24,154	12,115	5	1	188	15
1 - 8	0.01	1,182	1,161	5	1	18	1
Total sovereign exposures	0.01	25,336	13,276	5	1	206	16
Bank							
1	0.03	1,084,608	9,535	55	28	2,833	227
2 - 4	0.12	76,136	1,102	65	38	440	35
5 - 8	3.23	5	5	39	116	6	-
Total bank exposures	0.04	1,160,749	10,642	56	29	3,279	262
Residential mortgages							
0 - 3	0.20	27,223	27,591	12	5	1,573	126
4	0.46	36,733	36,883	19	15	5,884	471
5	0.91	21,321	21,423	23	31	7,074	566
6	1.98	4,245	4,249	26	59	2,667	213
7 - 8	4.80	309	309	27	94	309	25
Default	100.00	338	339	19	15	55	5
Total residential mortgages exposures	0.94	90,169	90,794	18	18	17,562	1,406
Other retail							
0 - 2	0.10	538	541	77	50	284	23
3 - 4	0.26	4,607	4,689	78	55	2,714	217
5	1.06	1,934	1,878	71	74	1,473	118
6	2.25	1,854	1,895	70	89	1,786	143
7 - 8	7.94	1,487	1,525	82	127	2,049	164
Default	100.00	84	84	76	67	59	4
Total other retail exposures	2.64	10,504	10,612	76	74	8,365	669
Total credit risk exposures subject to the IRB approach	1.20	1,416,864	173,525	29	31	57,163	4,573

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

IRB credit exposures include the following undrawn commitments and other off-balance sheet amounts:

As at 30 September 2019	Total value NZ$m	Exposure at default NZ$m
Undrawn commitments and other off-balance sheet amounts excluding market related contracts		
Corporate	12,224	11,561
Sovereign	299	286
Bank	1,444	1,180
Residential mortgages	8,268	8,684
Other retail	5,271	5,294
Market related contracts		
Corporate	82,694	1,991
Sovereign	12,036	179
Bank	1,151,985	3,756
Residential mortgages	-	-
Other retail	-	-

Additional mortgage information

As required by RBNZ, LVRs are calculated as the current exposure secured by a residential mortgage divided by the Banking Group's valuation of the security property at origination of the exposure. Off-balance sheet exposures include undrawn and partially drawn residential mortgage loans as well as commitments to lend. Commitments to lend are formal offers for housing lending which have been accepted by the customer.

As at 30 September 2019	On-balance sheet NZ$m	Off-balance sheet NZ$m	Total NZ$m
LVR range			
Does not exceed 60%	40,753	5,697	46,450
Exceeds 60% and not 70%	18,623	1,317	19,940
Exceeds 70% and not 80%	18,041	931	18,972
Does not exceed 80%	77,417	7,945	85,362
Exceeds 80% and not 90%	3,237	159	3,396
Exceeds 90%	1,247	164	1,411
Total	81,901	8,268	90,169

Specialised lending subject to the slotting approach

As at 30 September 2019	Total exposures after credit risk mitigation NZ$m	Risk weight %	Risk weighted assets NZ$m	Minimum Pillar 1 capital requirement NZ$m
On-balance sheet exposures				
Strong	5,179	70	3,843	307
Good	5,713	90	5,450	436
Satisfactory	285	115	347	28
Weak	152	250	402	32
Default	12	-	-	-

As at 30 September 2019	Exposure at default NZ$m	Average risk weight %	Risk weighted assets NZ$m	Minimum Pillar 1 capital requirement NZ$m
Off-balance sheet exposures				
Undrawn commitments and other off-balance sheet exposures	1,300	93	1,285	103

The supervisory categories of specialised lending above are associated with specific risk-weights. These categories broadly correspond to the following external credit assessments using S&P Global Ratings' rating scale, Strong: BBB- or better, Good: BB+ or BB, Satisfactory: BB- or B+ and Weak: B to C-.

REGISTERED BANK DISCLOSURES

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Credit risk exposures subject to the standardised approach

As at 30 September 2019	Total exposure after credit risk mitigation NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Minimum Pillar 1 capital requirement NZ$m
On-balance sheet exposures				
Cash and gold bullion	192	-	-	-
Sovereign and central banks	1,448	-	-	-
Multilateral development banks and other international organisations	-	-	-	-
Public sector entities	-	-	-	-
Banks	-	-	-	-
Corporate	1,339	9	130	10
Residential mortgages	-	-	-	-
Past due assets	1	150	1	-
Other assets	927	100	983	79

As at 30 September 2019	Total exposure or principal amount NZ$m	Average credit conversion factor %	Credit equivalent amount NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Minimum Pillar 1 capital requirement NZ$m
Off-balance sheet exposures						
Undrawn commitments and other off-balance sheet exposures	579	68	396	97	405	32
Market related contracts						
Foreign exchange contracts	2	n/a	-	-	-	-
Interest rate contracts	261,459	n/a	296	6	17	1
Other - OTC etc	-	n/a	-	-	-	-

Equity exposures

As at 30 September 2019	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Minimum Pillar 1 capital requirement NZ$m
Equity holdings (not deducted from capital) that are publicly traded	-	300	-	-
All other equity holdings (not deducted from capital)	1	400	5	-

Credit risk mitigation

As at 30 September 2019, the Banking Group had NZ$918 million of Corporate exposures covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

Operational risk

As required by its conditions of registration, the Banking Group uses the standardised approach to the calculation of its operational risk capital requirement. As at 30 September 2019, the Banking Group had an implied risk weighted exposure of NZ$9,720 million for operational risk and an operational risk capital requirement of NZ$778 million.

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B. The peak end-of-day market risk exposures are for the six months ended 30 September 2019.

	Implied risk weighted exposure		Aggregate capital charge	
	Period end	Peak	Period end	Peak
As at 30 September 2019	NZ$m	NZ$m	NZ$m	NZ$m
Interest rate risk	4,777	6,543	382	523
Foreign currency risk	10	128	1	10
Equity risk	1	1	-	-
	4,788		383	

Capital for other material risks

The Banking Group has an Internal Capital Adequacy Assessment Process (ICAAP) which complies with the requirements of the Bank's Conditions of Registration. Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier 1 and total capital ratios. The other material risks identified by the Banking Group include pension risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk and software risk. The Banking Group's internal capital allocation for these other material risks is NZ$272 million. (2018: NZ$389 million). Insurance, value in-force and business retention risks are no longer included following the sale of OnePath.

Information about Ultimate Parent Bank and Overseas Banking Group

APRA Basel III capital ratios	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
	2019	2018	2019	2018
Common equity tier 1 capital	11.4%	11.4%	11.4%	11.6%
Tier 1 capital	13.2%	13.4%	13.4%	13.6%
Total capital	15.3%	15.2%	15.7%	15.6%

The Ultimate Parent Bank and the Overseas Banking Group are required to hold minimum capital as determined by APRA, which is at least equal to that specified under the Basel III capital framework.

APRA has authorised the Ultimate Parent Bank and the Overseas Banking Group to use:

- the Advanced Internal Ratings Based (AIRB) methodology for calculation of credit risk weighted assets. There are however small portfolios (mainly retail and local corporates in Asia Pacific) where the Overseas Banking Group applies the standardised approach.
- the AMA for the operational risk weighted asset equivalent.

The Overseas Banking Group exceeded the minimum capital requirements set by APRA as at 30 September 2019 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2019. The Overseas Banking Group’s Pillar 3 disclosure document for the quarter ended 30 September 2019, in accordance with APS 330: *Public Disclosure of Prudential Information*, discloses capital adequacy ratios and other prudential information. This document can be accessed at the website anz.com.

Regulatory liquidity ratios

RBNZ requires banks to hold minimum amounts of liquid assets to help ensure that they are effectively managing their liquidity risks. The mismatch ratio is a measure of a bank’s liquid assets, adjusted for expected cash inflows and outflows during a 1-month or 1-week period of stress. It is expressed as a ratio over the bank’s total funding. The Banking Group must maintain its 1-month and 1-week mismatch ratios above zero on a daily basis. The 1-month and 1-week mismatch ratios are averaged over the quarter.

RBNZ requires banks to get a minimum amount of funding from stable sources called core funding. The minimum amount of core funding is currently set at 75% of a bank’s total loans. The Banking Group must maintain its core funding ratio above 75% on a daily basis. This measure of the core funding ratio is averaged over the quarter.

For the three months ended	30 Sep 19	30 Jun 19
Quarterly average 1-week mismatch ratio	5.5%	4.6%
Quarterly average 1-month mismatch ratio	5.5%	4.2%
Quarterly average core funding ratio	88.3%	89.1%

REGISTERED BANK DISCLOSURES

B5. CONCENTRATION OF CREDIT EXPOSURES TO INDIVIDUAL COUNTERPARTIES

The Banking Group measures its concentration of credit exposures to individual counterparties at the reporting date on the basis of actual exposures. Peak end-of-day aggregate credit exposures are measured on the basis of internal limits that were not materially exceeded between the reporting date for the previous disclosure statement and the reporting date for the Disclosure Statement.

The exposure information in the table below excludes exposures to:

- connected persons (ie other members of the Overseas Banking Group and Directors of the Bank);
- the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent; and
- any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

	As at 30 Sep 19	Peak end of day over 6 months to 30 Sep 19
Exposures to banks		
Total number of exposures to banks that are greater than 10% of CET1 capital	3	3
with a long-term credit rating of A- or A3 or above, or its equivalent	3	3
- 10% to less than 15% of CET1 capital	2	-
- 15% to less than 20% of CET1 capital	1	2
- 20% to less than 25% of CET1 capital	-	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% of CET1	4	4
with a long-term credit rating of A- or A3 or above, or its equivalent	4	4
- 10% to less than 15% of CET1 capital	3	3
- 25% to less than 30% of CET1 capital	1	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

B6. CREDIT EXPOSURES TO CONNECTED PERSONS

	Connected persons		Non-bank connected	
	Amount NZ$m	% of Tier 1 Capital	Amount NZ$m	% of Tier 1 Capital
As at 30 September 2019				
Gross amount, before netting	9,100	68.8%	<$1m	0.0%
Amount netted	6,604	49.9%	-	0.0%
Aggregate credit exposure (on partial bilaterial net basis)	2,496	18.9%	<$1m	0.0%
Peak end-of day aggregate credit exposure over the year ended 30 September 2019				
Gross amount, before netting	11,007	83.2%	<$1m	0.0%
Amount netted	7,459	56.4%	-	0.0%
Aggregate credit exposure (on partial bilaterial net basis)	3,548	26.8%	<$1m	0.0%

Credit exposures to connected persons

The information on credit exposure to connected persons has been derived in accordance with the RBNZ Banking Supervision Handbook document *Connected Exposures Policy* (BS8), is net of individual credit impairment allowances and excludes advances to connected persons of a capital nature.

Peak end-of-day aggregate exposure

Peak end-of-day aggregate credit exposure to connected persons as a ratio to tier 1 capital for the full year accounting period is derived by determining the maximum end-of-day aggregate amount of credit exposure over the accounting period and then dividing that amount by the Banking Group's tier 1 capital as at the reporting date.

Rating contingent limit

The rating-contingent limit that applied to the Banking Group as at 30 September 2019 was 60%. No limit changes have occurred over the year to 30 September 2019. Within the overall rating-contingent limit, there is a sub-limit of 15% of tier 1 capital that applies to the aggregate credit exposure to non-bank connected persons.

Additional requirements for aggregate credit exposure to connected persons

Aggregate credit exposure to connected persons has been calculated on a partial bilateral net basis. The gross amounts and amounts netted off under a bilateral netting agreement are included in the table above. There is a limit of 125% of the Banking Group's tier 1 capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure.

Aggregate amount of contingent exposures arising from risk lay-off arrangements

NZ$456 million of contingent exposures of the Banking Group to connected persons arose from risk lay-off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons) as at 30 September 2019.

Loss allowance for credit-impaired credit exposures to connected persons

There were no loss allowances provided against credit exposures to connected persons as at 30 September 2019.

REGISTERED BANK DISCLOSURES

B7. INSURANCE BUSINESS, SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS

Insurance business

The Banking Group previously conducted insurance business through its subsidiary OnePath. OnePath was sold to Cigna Corporaton on 30 November 2018, and as at 30 September 2019, the Banking Group does not conduct any insurance business. As at 30 September 2018, the Banking Group's aggregate amount of insurance business comprised the total consolidated assets of OnePath of $NZ940 million, which was 0.6% of the total consolidated assets of the Banking Group.

Banking Group's involvement in securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products

a) Banking Group's involvement in the establishment, marketing, or sponsorship of trust, custodial, funds management, and other fiduciary activities

Activity	Details
Custodial	The Banking Group operates two custodians: • ANZ Custodial Services New Zealand Limited, which is the appointed custodian for private banking's (ANZ Private) Discretionary Investment Management Service, Wholesale Investment Services and Trading Service; and • ANZ New Zealand Investments Nominees Limited, which is the appointed custodian in respect of direct holdings of securities by various wholesale customer portfolios managed by ANZ New Zealand Investments Limited (ANZ Investments).
Funds management	The Banking Group provides the following funds management services: • *Managed Investment Schemes (MIS):* The Banking Group's subsidiaries ANZ Investments and ANZ Investment Services (New Zealand) Limited (ANZIS) act as manager for a number of managed investment schemes. ANZ Investments holds a MIS Manager licence, with ANZIS being an authorised body under that licence. ANZ Investments is the issuer and manager of ANZ and OneAnswer-branded KiwiSaver schemes, retail and wholesale schemes. ANZIS is the issuer and manager of the Bonus Bonds Scheme and the ANZ PIE Fund. ANZ National Staff Superannuation Limited, also a subsidiary of the Banking Group, is the trustee and manager of the ANZ National Retirement Scheme, which is a restricted workplace savings scheme. • *Discretionary Investment Management Service (DIMS):* The Bank is a licensed DIMS provider. This service is offered to ANZ Private customers. • *Other investment portfolios:* ANZ Investments also manages investment portfolios for a number of schemes where the scheme manager or trustee has outsourced investment management services to ANZ Investments. These schemes are typically corporate superannuation schemes.
Other fiduciary activities	ANZ Investments, through its subsidiary OneAnswer Nominees Limited, offers the OneAnswer Portfolio Service. The associated administration and custody services are provided by FNZ Limited and FNZ Custodians Limited respectively (together FNZ). FNZ is not a member or related party of the Banking Group.

b) Banking Group's involvement in the origination of securitised assets, and the marketing or servicing of securitisation schemes

The Banking Group originates securitised assets in the form of residential mortgage backed securities held for potential repurchase transactions with RBNZ, and covered bonds. Refer to Note 24 Structured Entities for further details about these programmes. Other than these activities, the Banking Group is not involved in the marketing or servicing of securitisation schemes.

c) Banking Group's involvement in marketing and distribution of insurance products

The Banking Group markets and distributes life insurance, other personal and business insurance products provided by or arranged through a number of insurance partners. None of these insurance partners are affiliated insurance entities or affiliated insurance groups. Our insurance partners are:

- OnePath for life insurance. OnePath was a subsidiary of the Banking Group until 30 November 2018;
- Vero Insurance New Zealand Limited for house, contents, car and boat insurance;
- AWP Services New Zealand Limited, trading as Allianz Partners, for travel insurance. Policies are underwritten by Allianz Australia Insurance Limited (incorporated in Australia) trading as Allianz New Zealand;
- Cigna Life Insurance New Zealand Limited for credit card repayment insurance; and
- Crombie Lockwood (NZ) Limited is our business insurance broker.

Arrangements to ensure no adverse impacts arising from the above activities

Arrangements have been put in place to ensure that difficulties arising from the activities in a), b) and c) above would not impact adversely on the Banking Group. The policies and procedures in place include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management.

B7. INSURANCE BUSINESS, SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS (continued)

Amounts represented by funds management and securitisation activities

	2019 NZ$m	2018 NZ$m
Funds under management:		
KiwiSaver[1]	14,781	12,923
Bonus Bonds Scheme[2]	3,276	3,300
Other managed funds[1]	2,494	2,261
ANZ PIE Fund[2]	2,131	1,656
DIMS[3]	8,062	7,678
Other investment portfolios[4]	3,401	2,847
Total funds under management	34,145	30,665
Funds under custodial arrangements[5]	8,373	7,970
Other funds held or managed subject to fiduciary responsibilities[6]	1,401	1,270
Outstanding securitised assets originated by the Banking Group - carrying amount of covered bonds	4,460	3,929

1 Managed by ANZ Investments.
2 Managed by ANZIS.
3 Managed by the Bank.
4 Comprises portfolios managed by ANZ Investments, and the ANZ National Retirement Scheme managed by ANZ National Staff Superannuation Limited.
5 Amount for 2018 includes NZ$60 million held in custody by ANZ New Zealand Securities Nominees Limited, which was sold in December 2018, which are not included in funds under management. All other amounts are also included in funds under management.
6 Not included in funds under management.

Financial services provided to entities conducting the above activities

Financial services provided by any member of the Banking Group to entities that conduct the activities in a) or b) above are provided on arm's length terms and conditions and at fair value.

Assets purchased from entities conducting the above activities

Over the year ended 30 September 2019, any assets purchased by any member of the Banking Group from entities that conduct the activities in a), b) or c) above have been purchased on arm's length terms and conditions and at fair value.

Funding provided to entities in aggregate and individually

The peak end-of day aggregate amount of funding provided to entities that provide services relating to the Banking Group's involvement in the above activities over the year ended 30 September 2019 was less than NZ$0.1 million (2018: less than NZ$0.1 million) which was 0.0% (2018: 0.0%) of the Banking Group's tier 1 capital and 0.0% (2018: 0.0%) of the total assets of the individual entity.

Method for deriving peak end-of-day amount of funding in aggregate and individually

The peak end-of-day aggregate amount of funding is the maximum end-of-day aggregate amount of funding over the full year accounting period, divided by the Banking Group's tier 1 capital as at the balance date, and the total assets as at the balance date of the individual entity to which the Banking Group has provided funding. Where financial statements for the individual entity are not publicly available, total assets from the publicly available financial statements of the group of which the entity is a member have been used.

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES

Information about risk

The success of the Banking Group's strategy is underpinned by our sound management of the Banking Group's risks. All of the Banking Group's activities involve - to varying degrees - the analysis, evaluation, acceptance and management of risks or combinations of risks.

The Board is responsible for establishing and overseeing the Banking Group's Risk Management Framework. The Board has delegated authority to the Bank's Board Risk Committee (BRC) to develop and monitor compliance with the Banking Group's risk management policies. The Committee reports regularly to the Board on its activities.

The key pillars of the Banking Group's Risk Management Framework include:

- the Risk Appetite Statement (RAS), which clearly and concisely sets out the Board's expectations regarding the degree of risk that the Banking Group is prepared to accept in pursuing its strategic objectives and its business plan; and
- the Risk Management Statement (RMS), which describes the Banking Group's strategy for managing risks and a summary of the key elements of the Risk Management Framework (RMF) that give effect to that strategy. The RMS includes: a description of each material risk; and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how the Banking Group identifies, measures, evaluates, monitors, reports and then either controls or mitigates material risks.

The material risks facing the group per the Banking Group's RMS, and how these risks are managed are summarised below:

Key Material Risks

Each key material risk has an associated RAS, and where applicable, measured by appropriate metric(s) and associated tolerance(s) representing the maximum level of risk appropriate to execute the Banking Group's strategic agenda. Metrics are prepared and reviewed at least monthly. A risk appetite dashboard is prepared and reviewed by senior management monthly, and presented to the BRC at each meeting.

Risk Type	Description	Managing the Risk
Strategic Risk	The risk that the Banking Group's business strategy and strategic objectives may lead to an increase in other key Material Risks - for example: Credit Risk, Market Risk and Operational Risk.	We consider and manage Strategic Risks through our annual strategic planning process, managed by the Executive Committee and approved by the Board. Any increase to our key Material Risks is managed in accordance with the risk management practices specified below.
Capital Adequacy Risk	The risk of loss arising from the Banking Group failing to maintain the level of capital required by prudential regulators and other key stakeholders (shareholders, debt investors, depositors, rating agencies, etc.) to support the Banking Group's consolidated operations and risk appetite.	We pursue an active approach to Capital Management through ongoing review, and Board approval, of the level and composition of our capital base against key policy objectives.
Credit Risk	The risk of financial loss resulting from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in a financial loss. Credit Risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies. Includes: • concentrations of credit risk; • intra-day credit risk; • credit risk to bank counterparties; and • related party credit risk.	Our Credit Risk framework is top down, being defined by credit principles and policies. Credit policies, requirements and procedures cover all aspects of the credit life cycle - for example: transaction structuring, risk grading, initial approval, ongoing management and problem debt management, as well as specialist policy topics. The effectiveness of the Credit Risk framework is assessed through various compliance and monitoring processes. These, together with portfolio selection, define and guide the credit process, organisation and staff.
Market Risk	The risk to the Banking Group's earnings arising from: • changes in any interest rates, foreign exchange rates, credit spreads, volatility, and correlations; or • from fluctuations in bond, commodity or equity prices.	Our risk management and control framework for Market Risk involves us quantifying the magnitude of market risk within the trading and balance sheet portfolios through independent risk measurement. First, we identify the range of possible outcomes, the likely timeframe, and the likelihood of the outcome occurring. Then we allocate an appropriate amount of capital to support these activities. The Banking Group's key tools to measure and manage Market Risk on a daily basis include value at risk, earnings at risk, interest rate sensitivities, market value loss limits and stress testing.

B8. RISK MANAGEMENT POLICIES (continued)

Risk Type	Description	Managing the Risk
Liquidity and Funding Risk	The risk that the Banking Group is unable to meet its payment obligations as they fall due, including: • repaying depositors or maturing wholesale debt; or • the Banking Group having insufficient capacity to fund increases in assets.	Key principles in managing our Liquidity and Funding Risk include: • maintaining our ability to meet liquidity 'survival horizons' under a range of stress scenarios to meet cash flow obligations over a short to medium term horizon; • maintaining a strong structural funding profile; and • maintaining a portfolio of high-quality liquid assets to act as a source of liquidity in times of stress.
Operational Risk	The risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and/or systems, or from external events. This definition includes legal risk, and the risk of reputation loss, or damage arising from inadequate or failed internal processes, people and/or systems; but excludes Strategic Risk.	We operate a three-lines-of-defence model to manage Operational Risk, with each line of defence having defined roles, responsibilities and escalation paths to support effective communication and effective management of our Operational Risk. Also, we have ongoing review mechanisms to ensure our Operational Risk framework continues to meet organisational needs and regulatory requirements.
	Compliance Risk The risk of failure to act in accordance with laws, regulations, industry standards and codes, internal policies and procedures and principles of good governance as applicable to the Banking Group's businesses.	Key features of how we manage Compliance Risk as part of our Operational Risk framework include: • centralised management of key obligations, and emphasis on identifying changes in regulations and the business environment, so as to enable us to proactively assess emerging compliance risks and implement robust reporting and certification processes. • recognition of incident management as a separate element to enhance the Banking Group's ability to identify, manage and report on incidents/breaches in a timely manner. • the Whistleblower Protection Policy allowing employees and contractors to make confidential, anonymous submissions regarding concerns relating to accounting, internal control, compliance, audit and other matters.
	Conduct and Reputation Risk The risk of loss that directly or indirectly impacts earnings, capital adequacy or value, that is caused by: • adverse perceptions of the Banking Group held by any of our customers, the community, shareholders, investors, regulators, or rating agencies; • conduct risk associated with the Banking Group's employees or contractors (or both); or the social or environmental (or both) impacts of our lending decisions.	We manage Conduct and Reputation Risk by maintaining a positive and dynamic culture that: • ensures we act with integrity; and • enables us to build strong and trusted relationships with customers and clients, with colleagues, and with the broader society. We have well established decision-making frameworks and policies to ensure our business decisions are guided by sound social and environmental standards that take into account Conduct and Reputation Risk.

Refer to Note 15 Financial Risk Management for the disclosures required under NZ IFRS 7 *Financial Instruments: Disclosures.*

Other Material Risks

Risks where the maximum level of risk is set as part of the Banking Group's ICAAP. These risks do not require the same degree of active or transactional management as the Key Material Risks and are managed and monitored as part of the Banking Group's business, strategic and capital management process. For more information about the Banking Group's ICAAP refer to the section 'Capital for other material risks' in Note B4.

Pension Risk	The risk of the value of investments in a defined benefit pension fund being insufficient to meet liabilities resulting in additional funds being required to match pension liabilities.
Strategic Equity Risk	The risk of financial loss arising from the unexpected reduction in value of equity investments not held in the trading book.
Fixed Asset Risk	The risk of financial loss arising from the negative revaluation of fixed assets owned and leased, caused by adverse changes in business and/or economic conditions. Residual Value Risk is included in the definition of Fixed Assets, which is the risk that the market value of the underlying assets of operating leases may fall below the anticipated residual value.
Deferred Acquisiton Risk	The risk of loss arising from the failure of the benefits associated with the acquisition of interest earnings assets to arise due to impairment, transfer, or prepayment.
Software Risk	The risk of financial loss arising from the unexpected accelerated write down of capitalised software expenditure due to diminished future economic benefits caused by adverse business or economic conditions.

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES (continued)

Capital adequacy

Refer to Note 22 Capital Management for the disclosures required under NZ IAS 1 *Presentation of financial statements*.

Reviews of the Banking Group's risk management systems

Refer to Note 15 Financial Risk Management for details of the Internal Audit Function's reviews of the Banking Group's RMF. These reviews are not conducted by a party external to the Banking Group or the Ultimate Parent Bank.

Internal Audit Function of the Banking Group

The Banking Group has an Internal Audit Function, refer to Note 15 Financial Risk Management for details.

The nature and scope of the responsibilities of the Audit Committee responsibilities, to which Internal Audit reports, are to assist the Board of Directors by providing oversight and review of:

- the Banking Group's financial reporting principles and policies, controls, systems and procedures;
- the effectiveness of the Banking Group's internal control and risk management framework;
- the work and internal audit standards of Internal Audit which reports directly and solely to the Chair of the Audit Committee.
- the integrity of the Banking Group's financial statements and the independent audit thereof, and the Banking Group's compliance with legal and regulatory requirements in relation thereto;
- any due diligence procedures;
- prudential supervision procedures and other regulatory requirements to the extent relating to financial reporting; and
- any other matters referred to it by the Board.

The Audit Committee is also responsible for:

- the appointment, annual evaluation and oversight of the external auditor;
- annual review of the independence, fitness and propriety, and qualifications of the external auditor;
- compensation of the external auditor; and
- where deemed appropriate, replacement of the external auditor.

In carrying out its responsibilities and duties, the Audit Committee will aim to seek fair customer outcomes and financial market integrity in its deliberations.

Measurement of impaired assets

Refer to Note 12 Allowance for Expected Credit Losses and Note 15 Financial Risk Management for details of the Banking Group's approach to measurement of impaired assets. Further to this, impairment is assessed monthly, with individual allowances for credit impairment also updated monthly and collective allowances for credit impairment updated quarterly.

Credit risk mitigation

Refer to Note 18 Offsetting for the policies and processes for, and extent of, on-balance sheet netting. The same policies and processes apply to off-balance sheet credit related commitments. No off-balance sheet credit related commitments or guarantees meet the criteria for netting.

As an AIRB bank, the Banking Group uses the comprehensive method to measure the mitigating effects of collateral.

The Banking Group assesses the integrity and ability of counterparties to meet their contractual financial obligations for repayment. The Banking Group generally takes collateral security in the form of real property or a security interest in personal property, except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance, in the form of housing loans, is generally secured against real estate while short term revolving consumer credit is generally unsecured.

Additional information about credit risk

Implementation of the advanced internal ratings based approach to credit risk measurement

The Banking Group adheres to the standards of risk grading and risk quantification as set out for IRB banks in the RBNZ document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B).

Under this IRB Framework banks use their own measures for calculating the level of credit risk associated with customers and exposures, by way of the primary components of:

- Probability of Default (PD): An estimate of the level of risk of borrower default graded by way of rating models used both at loan origination and for ongoing monitoring.
- Exposure at Default (EAD): The expected facility exposure at default. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.
- Loss Given Default (LGD): An estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD. For Retail Mortgage exposures the Bank is required to apply the downturn LGDs according to loan to value (LVR) bands as set out in BS2B. For farm lending exposures the Banking Group is required to adopt RBNZ prescribed downturn LVR based LGDs, along with a minimum maturity of 2.5 years and the removal of the firm-size adjustment.

For exposures classified under Specialised Lending, the Banking Group uses slotting tables approved by RBNZ rather than internal estimates.

The exceptions to IRB treatment are three minor portfolios where, due to systems constraints, determining these IRB risk estimates is not currently feasible or appropriate. Risk weights for these exposures are calculated under a separate treatment as set out in the RBNZ document *Capital Adequacy Framework (Standardised Approach)* (BS2A).

B8. RISK MANAGEMENT POLICIES (continued)

Classification of Banking Group exposures according to rating approach

Internal ratings based approach

IRB Asset Class	Borrower Type	Rating Approach
Sovereign	Crown	IRB - Advanced
	RBNZ	IRB - Advanced
	Any other sovereign and its central bank	IRB - Advanced
Bank	Registered banks	IRB - Advanced
Corporate	Corporation, partnerships or proprietorships that do not fit any other asset classification	IRB - Advanced
	Corporate Small to Medium Enterprises (SME) with turnover of less than NZ$50 million	IRB - Advanced
Retail Mortgages	Individuals' borrowings against residential property	IRB - Advanced
Other Retail	Other lending to individuals (including credit cards)	IRB - Advanced
	SME business borrowers	IRB - Advanced
Corporate sub-class - Specialised lending	Project finance	IRB - Slotting
	Income producing real estate	IRB - Slotting

Standardised approach

Exposure Class	Exposure Type	Reason for Standardised Approach	Future Treatment
Corporate	Merchant card prepayment exposures	System constraints	Move to IRB
	Corporate credit cards	System constraints	Move to IRB
Bank	Qualifying Central Counterparty (QCCP)	Required by BS2B	Standardised
Equity		Required by BS2B	Standardised
Other assets	All other assets not falling within any of the above classes	Required by BS2B	Standardised

Controls surrounding credit risk rating systems

The term "Rating Systems" covers all of the methods, processes, controls, data collection and technology that support the assessment of credit risk, the assignment of internal credit risk ratings and the quantification of associated default and loss estimates.

All material aspects of the Rating Systems and risk estimate processes are governed by the BRC. Risk grades are an integral part of reporting to senior management and executives. Management and staff of credit risk functions, in conjunction with the relevant Retail and Wholesale Risk Committees, regularly assess the performance of the rating systems, identify any areas for improvement and monitor progress on previously identified development work needed.

The Banking Group's Rating Systems are governed by a comprehensive framework of controls that operate at the business unit and support centres, and through central audit and validation processes. All policies, model designs, model reviews, methodologies, validations, responsibilities, systems and processes supporting the ratings systems are fully documented.

The Banking Group's Retail and Wholesale ratings functions work closely with the Ultimate Parent Bank's risk ratings functions, are independent of operational lending activities and are responsible for the ratings strategies and ongoing management of credit risk models within New Zealand. The annual review of models used across the Banking Group is a function undertaken by the ANZ Decision Model Validation Unit, which is also independent of credit risk operational functions and is responsible for overseeing the design, implementation and performance of all rating models in the Banking Group.

The target approach to modelling for the Banking Group is to deploy the model most suitable for the environment. At present this involves an approach to modelling that combines models developed in New Zealand and models developed by the Ultimate Parent Bank, tested and validated for use in New Zealand, as appropriate.

DIRECTORS' STATEMENT

As at the date on which this Disclosure Statement is signed, after due enquiry, each Director believes that:

- The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014; and
- The Disclosure Statement is not false or misleading.

Over the year ended 30 September 2019, after due enquiry, each Director believes that, except as noted on pages 74 to 76:

- ANZ Bank New Zealand Limited has complied with all Conditions of Registration that applied during that period;
- Credit exposures to connected persons were not contrary to the interests of the Banking Group; and
- ANZ Bank New Zealand Limited had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated, and has been signed by all Directors of the Bank on, 12 December 2019.

Antony Carter

Shayne Elliott

Alison Gerry

Michelle Jablko

Rt Hon Sir John Key, GNZM AC

Mark Verbiest

Joan Withers

KPMG

TO THE SHAREHOLDER OF ANZ BANK NEW ZEALAND LIMITED

REPORT ON THE BANKING GROUP DISCLOSURE STATEMENT

OPINION

We have audited the accompanying consolidated financial statements and registered bank disclosures of ANZ Bank New Zealand Limited and its subsidiaries (the Banking Group) in section B2, B3, B5, B6, B7 and B8 which comprise:

- the consolidated balance sheet as at 30 September 2019;
- the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended;
- notes, including a summary of significant accounting policies and other explanatory information; and
- the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order).

In our opinion, the accompanying consolidated financial statements on pages 4 to 64:

- give a true and fair view of the Banking Group's financial position as at 30 September 2019 and its financial performance and cash flows for the year ended on that date; and
- comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards).

In our opinion, the registered bank disclosures that are required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order and are included in sections B2, B3, B5, B6, B7 and B8 of the Disclosure Statement:

- have been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration;
- are in accordance with the books and records of the Banking Group in all material respects; and
- fairly state the matters to which they relate in accordance with those schedules.

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the Banking Group, as far as appears from our examination of those records.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISA's (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISA's (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements and registered bank disclosures in section B2, B3, B5, B6, B7 and B8 section of our report.

Our firm has also provided other audit related services to the Banking Group in relation to review of regulatory returns, internal controls reports, prospectus assurance or reviews and agreed upon procedures engagements. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

EMPHASIS OF MATTER - NON-COMPLIANCE WITH CERTAIN CONDITIONS OF REGISTRATION

We draw attention to section B1 of the Disclosure Statement, in which the Banking Group discloses that it has identified non-compliance with aspects of its Conditions of Registration relating to:

- Capital adequacy;
- Regulatory liquidity;
- Exposures to connected persons; and
- Outsourcing.

Further details of the matters relating to capital adequacy and regulatory liquidity are described below in our qualified review conclusion on the registered bank disclosures in section B4 relating to capital adequacy and regulatory liquidity ratios.

Our opinion on the consolidated financial statements and registered bank disclosures in sections B2, B3, B5, B6, B7 and B8 is not modified in respect of these matters.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

ALLOWANCE FOR EXPECTED CREDIT LOSSES

The Key Audit Matter

NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) was adopted by the Banking Group on 1 October 2018. The allowance for expected credit losses under NZ IFRS 9 is a key audit matter due to the significance of the loans and advances balance to the financial statements and the inherent complexity of the Banking Group's Expected Credit Loss (ECL) models used to measure ECL allowances. This new and complex accounting standard requires the Banking Group to recognise ECLs on its loans and advances and off-balance sheet positions. The Banking Group developed new models, which are reliant on data and a number of estimates including impacts of multiple economic scenarios, and other assumptions such as defining a Significant Increase in Credit Risk (SICR). This involves significant judgement and estimates and forward looking information reflecting potential future economic events.

NZ IFRS 9 requires the Banking Group to measure ECLs on a forward-looking basis reflecting a range of future economic conditions, including forward-looking assumptions such as forecast GDP and unemployment levels. Post-model adjustments to the ECL results are also made by the Banking Group to address known ECL model limitations or emerging trends in the loan portfolios. Significant judgement is required in selecting the economic scenarios used and the judgemental overlays that the Banking Group applies to the ECL results.

The criteria selected to identify a SICR, such as a decrease in customer credit rating (CCR), are key areas of judgement within the Banking Group's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.

Separate from the ECL calculation, allowances for individually assessed loans exceeding specific thresholds are individually assessed by the Banking Group. These specific allowances are established based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Banking Group in respect of the loans.

How the matter was addressed in our audit

Our audit procedures for the allowance for ECL and disclosures under NZ IFRS 9 for the year ended 30 September 2019 included assessing the Banking Group's significant accounting policies against the requirements of the accounting standard. KPMG Financial Risk Management specialists were used in ECL audit procedures as a core part of our audit team.

We tested key controls in relation to:

- The Banking Group's ECL model governance and validation processes;
- The Banking Group's assessment and approval of the forward looking macroeconomic assumptions and scenario weightings through challenge applied by the Banking Group's internal governance processes;
- Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;
- Counterparty risk grading for non-retail loans (larger customer exposures are monitored individually). We tested the approval of new lending facilities against the Banking Group's lending policies, and controls over the monitoring of counterparty credit quality; and
- The Banking Group's oversight of the retail loan portfolios, with a focus on controls over delinquency monitoring.

We also tested relevant General Information Technology Controls (GITCs) over the Key IT applications used by the Banking Group in measuring ECL allowances, as detailed in the IT systems and Controls key audit matter below.

In addition to controls testing, our procedures included:

- Performing credit assessments of a sample of non-retail loans controlled by the Banking Group's specialist workout and recovery team, assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Banking Group as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions). We challenged the Banking Group's risk grading of the loan, assessment of loan recoverability, valuation of security and the impact on the credit allowance. To do this, we reviewed the information on the Banking Group's loan file, understood the facts and circumstances of the case with the relationship manager, and performed our own assessment of recoverability. Exercising our judgement, our procedures included using our understanding of relevant industries and the macroeconomic environment, and comparing data and assumptions used by the Banking Group in recoverability assessments to externally sourced evidence, such as commodity prices and external property sale information;
- Obtaining an understanding of the Banking Group's processes to determine ECL allowances, evaluating the Banking Group's ECL model methodologies against established market practices and criteria in the accounting standards;
- Assessing the accuracy of the Banking Group's ECL model predictions by re-performing, for a sample of loans, the calculation of the ECL allowance and comparing this to the amount recorded by the Banking Group;
- Utilising KPMG Economic specialists to challenge the Banking Group's forward-looking macroeconomic assumptions and scenarios incorporated in the Banking Group's ECL models. We compared the Banking Group's forecast GDP and unemployment rates to relevant publicly available macro-economic information, and considered other known variables and information obtained through our other audit procedures to identify contradictory indicators;
- Testing the implementation of the Banking Group's SICR methodology by re-performing the staging calculation for a sample of loans and comparing our expectation to actual staging applied on an individual account level, taking into consideration movements in CCR; and
- Assessing the accuracy of the data used in the ECL models by confirming a sample of data fields such as account balance and CCR to relevant source systems.

We also challenged key assumptions in the components of the Banking Group's post-model adjustments to the ECL allowance balance. This included:

- Evaluating underlying data used in concentration risk and economic cycle allowances by comparing underlying portfolio characteristics to loss experience, current market conditions and specific risks inherent in the Banking Group's loan portfolios;
- Assessing the requirement for other additional allowances the Banking Group's ECL model and data deficiencies identified by the Banking Group's ECL model validation processes; and
- Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the portfolios against the Banking Group's assessment.

VALUATION OF FINANCIAL INSTRUMENTS

The Key Audit Matter

Financial instruments held at fair value on the Banking Group's balance sheet include investment securities, trading securities, derivative assets and liabilities, certain deposits and other borrowings, and other assets and liabilities designated as measured at fair value through profit or loss. The instruments are mainly risk management products sold to customers and used by the Banking Group to manage its own interest rate and foreign exchange risk.

The valuation of financial instruments held at fair value is considered a key audit matter due to:

- Their significant fair value (17% of assets and 9% of liabilities of the Banking Group);
- The significant volume and range of products transacted, which increases the risk of errors that could lead to inaccurate valuation;
- The significant level of judgement by the Banking Group, increasing the risk of error, and adding complexity to our audit. The level of judgement increases in the small number of instances where internal models, as opposed to quoted market prices, are used to determine fair value of an instrument; and
- The valuation of certain derivatives held by the Banking Group is sensitive to inputs including credit risk, funding rates, probabilities of default and loss given default. Both funding and credit risk are incorporated within the valuation of certain derivative instruments.

How the matter was addressed in our audit

Our audit procedures for the valuation of financial instruments held at fair value included:

- Testing access rights and change management controls for key valuation systems;
- Testing interface controls, notably the completeness and accuracy of data transfers between transaction processing systems, key systems used to generate valuations and any related valuation adjustments, and the Banking Group's market risk management and finance systems to identify inconsistencies in valuation processes across products;
- Testing the governance and approval controls such as management review and approval of the valuation models and approval of new products against policies and procedures;
- Testing the front office management review and approval of the daily financial instrument trading profit and loss reconciliations prepared by the Banking Group's independent markets and treasury control;
- Testing management's review and approval of valuation model construction and validation; and
- Testing the Banking Group's data validation controls.

We tested the valuation of financial instruments with both observable and unobservable inputs. Our specific testing involved valuation specialists and included:

- Evaluating the appropriateness of the Banking Group's valuation methodology for derivative financial instruments;
- Re-performing the valuation of 'level 1' and 'level 2' investment securities and trading securities, which are primarily government, semi-government and corporate debt securities, by comparing the observable inputs, including quoted prices, to independently sourced market data; and
- Using independent models to recalculate the valuation of a sample of derivative assets and liabilities where the fair value was determined using observable inputs. This included comparing a sample of observable inputs used in the Banking Group's derivative valuations to independently-sourced market data, such as interest rates, foreign exchange rates and volatilities.

IT SYSTEMS AND CONTROLS

The Key Audit Matter

As a major New Zealand bank, the Banking Group's businesses utilise a large number of complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of a financial report which provides a true and fair view of the Banking Group's financial position and performance. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Banking Group's IT controls.

How the matter was addressed in our audit

We tested the control environment for key IT applications used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which support the effective operation of technology-enabled business processes. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

Our audit procedures included:

- Assessing the governance and higher-level controls in place across the IT Environment, including the approach to the Banking Group policy design, review and awareness;
- Testing the design and operating effectiveness of controls across the User Access Management Lifecycle, including how users are on-boarded, reviewed, and removed on a timely basis from critical IT applications and supporting infrastructure. We also looked at how privileged roles and functions are managed across each IT Application and the supporting infrastructure;

INDEPENDENT AUDITOR'S REPORT

- Testing the design and operating effectiveness of controls in place over change management, including how changes are initiated, documented, approved, tested and authorised prior to migration into the production environment of critical IT Applications. We also assessed the appropriateness of users with access to make changes to IT applications across the Banking Group;
- Testing the design and operating effectiveness of controls used by the Banking Group's technology teams to schedule system jobs and monitor system integrity;
- Testing the design and operating effectiveness of controls in place to support Program Development, including the implementation of revised guidelines per the new ANZ Delivery Framework; and
- Testing the design and operating effectiveness of automated business process controls including those that enforce segregation of duties between conflicting roles within IT applications, configurations in place to perform calculations, mappings, and flagging of financial transactions, automated reconciliation controls, both between systems, and intra-system and data integrity of critical system reporting used for sampling, data analysis and financial reporting across the audit.

PROVISION FOR CUSTOMER REMEDIATION

The Key Audit Matter

The Banking Group has assessed the need to recognise provisions in relation to certain customer remediation activities arising from both internal and external investigations, and reviews. This includes provisions for expected refunds to customers and other counterparties, remediation project costs and related customer, counterparty and regulatory claims, penalties, and litigation outcomes.

The provision for customer remediation is a key audit matter due to the number of investigations, the quantum of amounts involved and the judgements required in assessing the Banking Group's determination of:

- The existence of a present legal or constructive obligation arising from a past event using the conditions of the event against the criteria in the accounting standards;
- Reliable estimates of the amounts that may be paid arising from investigations, including estimates of related costs; and
- The potential for legal proceedings, further investigations, and reviews from its regulators leading to a wider range of estimation outcomes for us to consider.

How the matter was addressed in our audit

Our audit procedures for customer remediation provisions included:

- Obtaining an understanding of the Banking Group's processes for identifying and assessing the potential impact of the investigations into customer remediation payments, related project costs and legal proceedings associated with compliance matters, investigations and reviews from its regulators;
- Enquiring with the Banking Group regarding ongoing legal, and regulatory matters, and investigation into other remediation activities;
- Enquiring with external legal counsel;
- Reading the minutes and other relevant documentation of the Banking Group's Board of Directors and various management committees, and attending the Banking Group's Audit and Risk Committee meetings;
- Inspecting correspondence with relevant regulatory bodies;
- For a sample of individual matters, assessing the basis for recognition and measurement of a provision and associated costs against the requirements of the accounting standards. We did this by understanding and challenging the provisioning methodologies and underlying assumptions;
- Testing completeness by evaluating all current customer remediation matters identified by the Banking Group and checking these exposures against the criteria for a provision or a contingency in the accounting standards; and
- Evaluating the related disclosures against the requirements of NZ IFRS.

COMPLETENESS AND ACCURACY OF RELATED PARTY DISCLOSURES

The Key Audit Matter

The Banking Group has significantly increased its focus on related party disclosures. We also reassessed the risk of completeness and accuracy of related party disclosures. We consider the increased risk to primarily arise from transactions with key management personnel and their related parties.

How the matter was addressed in our audit

Our audit procedures for related party disclosures included:

- Challenging the Banking Group's definition of related parties and related party transactions;
- Testing the key control over the Banking Group's process for identifying key management personnel, their related parties and their transactions and balances;
- Ensuring intra-group related party amounts are matched against Overseas Banking Group counterparties;
- Testing the completeness of the related parties identified by searching the Directors' Interests Register and public records to identify companies controlled by key management personnel or their close family members;
- Agreeing a sample of key management personnel compensation, transactions and balances identified by the Banking Group to approval documents and source systems;
- Sample testing the Banking Group's core bank system to identify undisclosed balances with key management personnel and their related parties;
- Evaluating the Banking Group's assertion that key management personnel transactions are on normal commercial terms by testing a sample of transactions and comparing the terms offered to those offered to other employees or customers; and
- Obtaining evidence over the Banking Group's assertion that transactions with the Overseas Banking Group are conducted at arm's length and on normal commercial terms basis.

OTHER INFORMATION

The Directors, on behalf of the Banking Group, are responsible for the general disclosures required to be included in the Banking Group's Disclosure Statement in accordance with Schedule 2 of the Order (section B1).

Our opinion on the consolidated financial statements does not cover section B1 (referred to as 'other information') and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B1, B2, B3, B5, B6, B7 AND B8

The Directors, on behalf of the Banking Group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with Clause 24 of the Order, NZ IFRS and International Financial Reporting Standards;
- the preparation and fair presentation of supplementary information, in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal control to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B2, B3, B5, B6, B7 AND B8

Our objective is:

- to obtain reasonable assurance about whether the Disclosure Statement, including the consolidated financial statements prepared in accordance with Clause 24 of the Order, and registered bank disclosures in section B2, B3, B5, B6, B7 and B8, prepared in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's (NZ) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

QUALIFIED REVIEW CONCLUSION ON THE REGISTERED BANK DISCLOSURES IN SECTION B4 RELATING TO CAPITAL ADEQUACY AND REGULATORY LIQUIDITY RATIOS (SECTION B4)

We have reviewed the registered bank disclosures, as disclosed in section B4 of the Disclosure Statement for the year ended 30 September 2019, which are required to be disclosed in accordance with Schedule 11 of the Order.

Based on our review, with the exception of the matter described below, nothing has come to our attention that causes us to believe that the information relating to Capital Adequacy and Regulatory Liquidity Ratios, disclosed in section B4 of the Disclosure Statement, is not, in all material respects disclosed in accordance with Schedule 11 of the Order.

BASIS FOR QUALIFIED CONCLUSION ON THE REGISTERED BANK DISCLOSURES IN SECTION B4

A review of the registered bank disclosures in section B4 in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410) is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our responsibilities under that standard are further described in the 'Auditor's Responsibilities for the review of the registered bank disclosures in section B4' section of our report.

As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

INDEPENDENT AUDITOR'S REPORT

As described in section B1, the Banking Group has identified that it was not compliant with Condition of Registration 1B in relation to the operation of versions of the following rating models and processes, which were not approved by the Reserve Bank of New Zealand (in some cases since 2008):

- Commercial property Model Suite (single investment, multi-investment, Hotel Investment, Special Purpose Asset investment, Single Residential Development, Englobo Land Pre Development);
- Non-Bank Financial Institutions Model Suite (Life Insurance, Non-Life Insurance, Insurance Holding Company, Finance Companies, Financial Services Companies, Real Money Funds);
- Project and Structured Finance; and
- Bank, Country and Sovereigns.

The Banking Group has also identified a small number of calculation errors or other matters of non-compliance, which, individually and in aggregate, have no material impact on the reported ratios.

In these respects, the Capital Adequacy Ratios disclosed in section B4 of the Disclosure Statement have not been disclosed in accordance with Schedule 11 of the Order.

We have estimated the impact of that non-compliance based on a recalculation of the relevant components of those ratios under the Reserve Bank of New Zealand's Standardised Approach for unapproved models, or against the previously approved model where a model had subsequently been modified without approval. In aggregate, our recalculation indicates a 0.17% reduction in the reported CET1 ratio, and a 0.21% reduction in the Tier 1 Capital, Total Capital and Buffer ratios. 59% of the impact comes from our recalculation of the Bank, Country and Sovereigns exposures using a Standardised Approach. The Banking Group would remain 5.41% above its regulatory minimum Total Capital ratio if those adjustments were made.

The above matters do not affect the Regulatory Liquidity information, which is also disclosed in section B4.

DIRECTORS' RESPONSIBILITIES FOR THE REGISTERED BANK DISCLOSURES IN SECTION B4

The Directors, on behalf of the Banking Group, are responsible for the preparation of the registered bank disclosures in section B4 of the Disclosure Statement in accordance with Schedule 11 of the Order.

AUDITOR'S RESPONSIBILITIES FOR THE REVIEW OF THE REGISTERED BANK DISCLOSURES IN SECTION B4

Our responsibility is to express a conclusion on the registered bank disclosures in section B4 based on our review. We conducted our review in accordance with NZ SRE 2410 issued by the New Zealand External Reporting Board. As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and plan and perform the review to obtain limited assurance about whether the registered bank disclosures in section B4 is, in all material respects, disclosed in accordance with Schedule 11 of the Order.

A review of the registered bank disclosures in section B4 in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISA's (NZ). Accordingly we do not express an audit opinion on the registered bank disclosures in section B4.

USE OF THIS INDEPENDENT AUDITOR'S REPORT

This independent auditor's report is made solely to the shareholder. Our work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder for our work, this independent auditor's report, or any of the opinions or conclusions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Matt Prichard.

For and on behalf of

KPMG

KPMG
Auckland

12 December 2019

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