AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED - ANZ NEW ZEALAND REGISTERED BANK DISCLOSURE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2017
NUMBER 36 | ISSUED NOVEMBER 2017

REGISTERED BANK DISCLOSURE STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2017

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GLOSSARY OF TERMS

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

Bank means ANZ Bank New Zealand Limited.

Banking Group means the Bank and all its controlled entities.

Immediate Parent Company means ANZ Funds Pty Limited, which is the immediate parent company of ANZ Holdings (New Zealand) Limited.

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

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

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

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

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

UDC means UDC Finance Limited.

Registered Office is Level 10, 171 Featherston Street, Wellington, New Zealand, which is also ANZ New Zealand'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 (Overseas Incorporated Registered Banks) Order 2014.

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

INCOME STATEMENT

	Note	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Interest income	3	6,434	6,770
Interest expense	3	3,356	3,741
Net interest income		3,078	3,029
Net trading gains	4	227	12
Net funds management and insurance income	4	329	414
Other operating income	4	355	401
Share of associates' profit		5	5
Operating income		3,994	3,861
Operating expenses	5	1,469	1,600
Profit before credit impairment and income tax		2,525	2,261
Credit impairment charge	14	60	147
Profit before income tax		2,465	2,114
Income tax expense	6	685	572
Profit after income tax		1,780	1,542

STATEMENT OF COMPREHENSIVE INCOME

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Profit after income tax	1,780	1,542
Items that will not be reclassified to profit or loss		
Actuarial gain on defined benefit schemes	21	18
Income tax expense relating to items not reclassified	(6)	(5)
Total items that will not be reclassified to profit or loss	15	13
Items that may be reclassified subsequently to profit or loss		
Unrealised gains / (losses) recognised directly in equity	(32)	91
Realised losses transferred to the income statement	12	9
Income tax credit / (expense) relating to items that may be reclassified	6	(28)
Total items that may be reclassified subsequently to profit or loss	(14)	72
Total comprehensive income for the year	1,781	1,627

BALANCE SHEET

	Note	30/09/2017 NZ$m	30/09/2016 NZ$m
Assets			
Cash	9	2,338	2,274
Settlement balances receivable		536	396
Collateral paid		1,415	2,310
Trading securities	10	7,663	11,979
Investments backing insurance contract liabilities		123	119
Derivative financial instruments	11	9,749	20,969
Available-for-sale assets	12	6,360	2,859
Net loans and advances	13	121,968	120,651
UDC assets held for sale	29	3,065	-
Other assets		683	701
Life insurance contract assets		636	630
Investments in associates		7	7
Premises and equipment		367	387
Goodwill and other intangible assets	24	3,275	3,424
Total assets		158,185	166,706
Interest earning and discount bearing assets		143,141	140,524
Liabilities			
Settlement balances payable		1,687	1,554
Collateral received		613	529
Deposits and other borrowings	15	108,013	106,908
Derivative financial instruments	11	9,894	22,398
Current tax liabilities		45	22
Deferred tax liabilities		189	147
UDC liabilities held for sale	29	1,088	-
Payables and other liabilities		1,161	1,137
Employee entitlements		119	126
Other provisions		66	80
Unsubordinated debt	16	21,323	20,014
Subordinated debt	17	2,674	2,624
Total liabilities (excluding head office account)		146,872	155,539
Net assets (excluding head office account)		11,313	11,167
Equity			
Share capital and initial head office account	25	8,055	8,055
Reserves		48	62
Retained earnings		3,210	3,050
Total equity & head office account		11,313	11,167
Interest and discount bearing liabilities		125,561	123,145

For and on behalf of the Board of Directors:

David Gonski, AC
Chairman
Australia and New Zealand Banking Group Limited
29 November 2017

Shayne Elliott
Executive Director
Australia and New Zealand Banking Group Limited
29 November 2017

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

CASH FLOW STATEMENT

	Note	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Cash flows from operating activities			
Interest received		6,463	6,794
Dividends received		5	2
Net funds management and insurance income		344	332
Fees and other income received		503	624
Interest paid		(3,303)	(3,753)
Operating expenses paid		(1,330)	(1,499)
Income taxes paid		(605)	(641)
Cash flows from operating profits before changes in operating assets and liabilities		2,077	1,859
Net changes in operating assets and liabilities:			
Change in settlements receivable		(14)	(19)
Change in collateral paid		895	(381)
Change in trading securities		4,210	164
Change in derivative financial instruments		(789)	(2,320)
Change in available-for-sale assets		(3,476)	(1,381)
Change in insurance investment assets		(4)	32
Change in loans and advances		(4,554)	(6,643)
Change in settlements payable		2	(67)
Change in collateral received		84	(1,158)
Change in deposits and other borrowings		2,354	8,180
Net changes in operating assets and liabilities		(1,292)	(3,593)
Net cash flows provided by / (used in) operating activities	8	785	(1,734)
Cash flows from investing activities			
Proceeds from sale of premises and equipment		9	17
Proceeds from sale of insurance policies		-	23
Purchase of intangible assets		(14)	(29)
Purchase of premises and equipment		(44)	(71)
Net cash flows used in investing activities		(49)	(60)
Cash flows from financing activities			
Proceeds from issue of unsubordinated debt		4,922	7,380
Redemptions of unsubordinated debt		(3,899)	(4,477)
Dividends paid		(1,635)	(1,320)
Net cash flows provided by / (used in) financing activities		(612)	1,583
Net increase / (decrease) in cash and cash equivalents		124	(211)
Cash and cash equivalents at beginning of the year		2,315	2,526
Cash and cash equivalents at end of the year	8	2,439	2,315

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital and initial head office account NZ$m	Available-for-sale revaluation reserve NZ$m	Cash flow hedging reserve NZ$m	Retained earnings NZ$m	Total equity NZ$m
As at 1 October 2015		8,058	-	(10)	2,812	10,860
Profit after income tax		-	-	-	1,542	1,542
Unrealised gains / (losses) recognised directly in equity		-	(2)	93	-	91
Realised losses transferred to the income statement		-	2	7	-	9
Actuarial gain on defined benefit schemes		-	-	-	18	18
Income tax expense on items recognised directly in equity		-	-	(28)	(5)	(33)
Total comprehensive income for the year		-	-	72	1,555	1,627
Shares cancelled on amalgamation	25	(3)	-	-	3	-
Ordinary dividend paid	25	-	-	-	(1,320)	(1,320)
As at 30 September 2016		8,055	-	62	3,050	11,167
Profit after income tax		-	-	-	1,780	1,780
Unrealised gains / (losses) recognised directly in equity		-	7	(39)	-	(32)
Realised losses transferred to the income statement		-	-	12	-	12
Actuarial gain on defined benefit schemes		-	-	-	21	21
Income tax credit / (expense) on items recognised directly in equity		-	(2)	8	(6)	-
Total comprehensive income for the year		-	5	(19)	1,795	1,781
Ordinary dividend paid	25	-	-	-	(1,635)	(1,635)
As at 30 September 2017		8,055	5	43	3,210	11,313

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Order. ANZ New Zealand's financial statements are for the Overseas Banking Group's consolidated New Zealand business, which includes its subsidiaries and associates.

These financial statements comply with:

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

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(ii) Use of estimates and assumptions

The preparation of these financial statements requires the use of management judgements, estimates and assumptions that affect reported amounts and the application of policies.

Discussion of the critical accounting estimates, which include complex or subjective decisions or assessments, are covered in note 2. Such estimates are reviewed on an ongoing basis.

(iii) Basis of measurement

The financial information has been prepared in accordance with the historical cost basis except that the following assets and liabilities are stated at their fair value:

- derivative financial instruments
- available-for-sale financial assets
- financial instruments held for trading
- financial instruments designated at fair value through profit and loss.

(iv) Rounding

The amounts in the financial statements have been rounded to the nearest million dollars, except where otherwise stated.

(v) Principles of consolidation

Subsidiaries

The consolidated financial statements of ANZ New Zealand comprise the financial statements of the NZ Branch and all the New Zealand businesses of all the subsidiaries of the Ultimate Parent Bank. An entity, including a structured entity, is considered a subsidiary of ANZ New Zealand when it is determined that control over the entity exists. Control is deemed to exist when ANZ New Zealand is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Power is assessed by examining existing rights that give ANZ New Zealand the current ability to direct the relevant activities of the entity.

At times, the determination of control can be judgemental. Further detail on the judgements involved in assessing control has been provided in note 2.

The effect of all transactions between entities in ANZ New Zealand is eliminated.

Associates

ANZ New Zealand applies the equity method of accounting for associates.

(vi) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of ANZ New Zealand's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

ANZ New Zealand's financial statements are presented in New Zealand dollars, which is ANZ New Zealand's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

NOTES TO THE FINANCIAL STATEMENTS

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they were initially recognised or included in a previous financial report, are recognised in profit or loss in the period in which they arise.

(B) Operating income

(i) Net Interest income

Interest income and expense

Interest income and expense is recognised in profit or loss using the effective interest method. This method uses the effective interest rate of a financial asset or financial liability to calculate its amortised cost. The effective interest rate is the rate that discounts the stream of estimated future cash receipts or payments over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. For assets subject to prepayment, the expected life is determined on the basis of historical behaviour of the particular asset portfolio – taking into account contractual obligations and prepayment experience.

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

(ii) Fee and commission income

Fees and commissions that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) are recognised when the significant act has been completed.

Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

(C) Income tax

(i) Income tax expense

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

(ii) Current tax expense

Current tax is the tax payable on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date. It includes any adjustment for tax payable in previous periods. Current tax is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(iii) Deferred tax

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

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

(D) Assets

Financial assets

(i) Financial assets and liabilities at fair value through profit or loss

Trading securities are financial instruments acquired principally for the purpose of selling in the short-term or which are a part of a portfolio which is managed for short-term profit-taking. Purchases and sales of trading securities are recognised on trade date and are initially designated at fair value through profit and loss, and subsequently measured in the balance sheet at their fair value with any revaluation recognised in profit and loss.

(ii) Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from an underlying price index (or other variable) defined in the contract – sometimes the value is derived from more than one variable: that require little or no initial net investment; and that are settled at a future date. Movements in the price of the underlying variable, which cause the value of the contract to fluctuate, are reflected in the fair value of the derivative.

Derivative financial instruments are entered into for trading purposes (including customer-related reasons) or for hedging purposes (where the derivative instruments are used to hedge ANZ New Zealand's exposures to interest rate risk, currency risk, price risk, credit risk and other exposures relating to non-trading positions).

Derivative financial instruments include forwards, futures, swaps and options.

Derivative financial instruments are recognised initially and at each reporting date at fair value. If the fair value of a derivative is: positive, then it is carried as an asset, but if it is negative, then it is carried as a liability. Valuation adjustments are integral in determining the fair

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value of derivatives. This includes a derivative credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and a funding valuation adjustment (FVA) to account for the funding cost and benefits in the derivatives' portfolio.

Where the derivative is effective as a hedging instrument and designated as such, the timing of the recognition of any resultant gain or loss in profit or loss is dependent on the hedging designation. These hedging designations and associated accounting are as follows:

Fair value hedge

Where ANZ New Zealand hedges the fair value of a recognised asset or liability or firm commitment, changes in the fair value of the derivative designated as a fair value hedge are recognised in profit or loss. Changes in the fair value of the hedged item attributable to the hedged risk are reflected in adjustments to the carrying value of the hedged item, which are also recognised in profit or loss.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The resulting adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss over the period to maturity of the hedged item.

If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in profit or loss.

Cash flow hedge

ANZ New Zealand designates derivatives as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, a foreign exchange component of a firm commitment, or a highly probable forecast transaction. For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedges is recognised initially in other comprehensive income and then recycled to profit or loss in the periods when the hedged item will affect profit or loss. Any ineffective portion is recognised immediately in profit or loss. When the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting, the cumulative amount deferred in equity remains in the hedging reserve, and is subsequently transferred to profit or loss when the hedged item is recognised in profit or loss.

When a forecast hedged transaction is no longer expected to occur, the amount deferred in equity is recognised immediately in profit or loss.

Derecognition of assets and liabilities

Derivative assets are removed from the balance sheet when substantially all of the risks and rewards of ownership have transferred. Derivative financial liabilities are removed from the balance sheet when ANZ New Zealand's contractual obligations are discharged, cancelled or expired.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair value of derivatives that are not designated in a hedging relationship but are entered into to manage the interest rate and foreign exchange risk of ANZ New Zealand are recognised in profit or loss. Under certain circumstances, the component of the fair value change in the derivative which relates to current period realised and accrued interest is included in net interest income. The remainder of the fair value movement is included in other income.

(iii) Available-for-sale assets

Available-for-sale assets comprise non-derivative financial assets which ANZ New Zealand designates as available-for-sale but which are not deemed to be held principally for trading purposes, and include equity investments and debt securities.

They are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity in the available-for-sale revaluation reserve. When the asset is sold, the cumulative gain or loss from the available-for-sale reserve is recognised in profit or loss.

(iv) Net loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the issue of the loan or advance, which are primarily brokerage/mortgage origination fees. Subsequently, they are measured at amortised cost using the effective interest method, net of any provision for credit impairment.

ANZ New Zealand classifies contracts to lease assets and hire purchase agreements as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party. All other lease contracts are classified as operating leases.

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

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

ANZ New Zealand separately recognises the rights and obligations retained, or created, in the transfer as assets and liabilities as appropriate.

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Impairment of loans and advances

ANZ New Zealand recognises two types of impairment provisions for its loans and advances:

- Individual provisions for significant assets that are assessed to be impaired; and
- Collective provisions for portfolios of similar assets that are assessed collectively for impairment.

Individually

If any impaired loans and advances exceed thresholds and an impairment event has been identified, then ANZ New Zealand assesses the need for a provision individually.

Loans and advances are assessed as impaired if ANZ New Zealand has objective evidence that they may not recover principal or interest payments (that is, a loss event has been incurred) and ANZ New Zealand can reliably measure the impairment.

Collectively

To allow for any small value loans and advances where losses may have been incurred but not yet identified, and individually significant loans and advances that ANZ New Zealand does not assess as impaired, ANZ New Zealand assesses them collectively in pools of assets with similar risk characteristics.

ANZ New Zealand estimates the provision on the basis of historical loss experience for assets with credit risk characteristics similar to others in the respective collective pool. ANZ New Zealand adjusts the historical loss experience based on current observable data, such as: changing economic conditions, the impact of the inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.

Measurement

ANZ New Zealand measures impairment loss as the difference between the asset's carrying amount and estimated future cash flows discounted to their present value at the asset's original effective interest rate. ANZ New Zealand records the result as an expense in profit or loss in the period ANZ New Zealand identifies the impairment and recognises a corresponding reduction in the carrying amount of loans and advances through an offsetting provision.

Uncollectible amounts

If a loan or advance is uncollectible (whether partially or in full), then ANZ New Zealand writes off the balance (and also any related provision for credit impairment).

ANZ New Zealand writes off unsecured retail facilities at the earlier of the facility becoming 180 days past due, or the customer's bankruptcy or similar legal release from the obligation to repay the loan or advance. For secured facilities, write offs occur net of the proceeds determined to be recoverable from the realisation of collateral.

Recoveries

If ANZ New Zealand recovers any cash flows from loans and advances previously written off, then the recovery is recognised in profit or loss in the period the cash flows are received.

Off-balance sheet amounts

Any off-balance sheet items, such as loan commitments, are considered for impairment both on an individual and collective basis.

Non-financial assets

(v) Goodwill

Goodwill represents the excess amount ANZ New Zealand has paid in acquiring a business over the fair value less costs of disposal of the identifiable assets and liabilities acquired. Goodwill is recognised at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment. This involves using the discounted cash flows methodology to determine the expected future benefits of the cash generating units to which the acquisition relates. Where the assessment results in the goodwill balance exceeding the value of expected future benefits, the difference is charged to profit or loss. Any impairment of goodwill is not subsequently reversed.

(E) Liabilities

Financial liabilities

(i) Deposits and other borrowings

For deposits and borrowings that are not designated at fair value through profit or loss on initial recognition, ANZ New Zealand measures them at amortised cost and recognises their interest expense using the effective interest rate method. When deposits and other borrowings are managed on a fair value basis, reduce or eliminate an accounting mismatch or contain an embedded derivative, ANZ New Zealand designates them as fair value through profit or loss.

For deposits and other borrowings designated at fair value ANZ New Zealand recognises the amount of fair value gain or loss attributable to changes in ANZ New Zealand's own credit risk in other comprehensive income in retained earnings. Any remaining amount of fair value

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gain or loss is recognised directly in profit or loss. Once ANZ New Zealand has recognised an amount in other comprehensive income, ANZ New Zealand does not later reclassify it to profit or loss.

Securities sold under repurchase agreements represent a liability to repurchase the financial assets that remain on ANZ New Zealand's balance sheet, since the risks and rewards of ownership remain with ANZ New Zealand. Over the life of the repurchase agreement, ANZ New Zealand recognises the difference between the sale price and the repurchase price and charges it to interest expense in profit or loss.

(ii) Unsubordinated debt and subordinated debt

Unsubordinated debt and subordinated debt are measured at amortised cost, except where designated at fair value through profit or loss. Where ANZ New Zealand enters into a hedge accounting relationship, the fair value attributable to the hedged risks is reflected in adjustments to the carrying value of the debt. Interest expense is recognised using the effective interest rate method.

(F) Equity

(i) Shares

Issued shares are recognised at the amount paid per share net of directly attributable issue costs.

(ii) Reserves

Available-for-sale revaluation reserve

This reserve includes the changes in fair value and exchange differences on ANZ New Zealand's revaluation of available-for-sale financial assets, net of deferred taxes to be realised upon disposal of the asset.

Cash flow hedging reserve

This reserve includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments, net of deferred taxes to be realised when the position is settled.

(G) Presentation

(i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in either of the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument
- where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses.

(ii) Offsetting of financial assets and liabilities

Assets and liabilities are offset and the net amount reported in the balance sheet only where there is:

- a current enforceable legal right to offset the asset and liability
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(iii) Segment reporting

Operating segments are distinguishable components of ANZ New Zealand that provide products or services that are subject to risks and rewards that are different to those of other operating segments. ANZ New Zealand operates predominantly in the banking industry within New Zealand. ANZ New Zealand has very limited exposure to risk associated with operating in different economic environments or political conditions. On this basis no geographical segment information is provided.

(H) Other

(i) Contingent liabilities

Contingent liabilities are not recognised in the balance sheet but disclosed in note 23 unless it is considered remote that ANZ New Zealand will be liable to settle the possible obligation.

(ii) Accounting Standards not early adopted

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2017, and have not been applied by ANZ New Zealand in preparing these financial statements.

ANZ New Zealand has identified three standards where this applies to ANZ New Zealand and further details are set out below.

***NZ IFRS 9 Financial Instruments* (NZ IFRS 9)**

NZ IFRS 9 was issued in September 2014. When operative, this standard will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement* (NZ IAS 39) and includes requirements for impairment, classification and measurement and general hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS

Impairment

NZ IFRS 9 replaces the incurred loss model under NZ IAS 39 with a forward-looking expected loss model. This model will be applied to financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, and certain loan commitments and financial guarantees. Under NZ IFRS 9, a three stage approach is applied to measuring expected credit losses (ECL) based on credit migration between the stages as follows:

- Stage 1: At initial recognition, a provision equivalent to 12 months ECL is recognised.
- Stage 2: Where there has been a significant increase in credit risk since initial recognition, a provision equivalent to full lifetime ECL is required.
- Stage 3: Similar to the current NZ IAS 39 requirements for individual impairment provisions, lifetime ECL is recognised for loans where there is objective evidence of impairment.

ECL are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Classification and measurement

There are three measurement classifications under NZ IFRS 9: amortised cost, fair value through profit or loss and, for financial assets, fair value through other comprehensive income. Financial assets are classified into these measurement classifications taking into account the business model within which they are managed, and their contractual cash flow characteristics.

The classification and measurement requirements for financial liabilities under NZ IFRS 9 are largely consistent with NZ IAS 39 with the exception that for financial liabilities designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income. This part of the standard was early adopted by ANZ New Zealand from 1 October 2013.

General hedge accounting

NZ IFRS 9 introduces general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks.

Transition and impact

Other than noted above under classification and measurement, NZ IFRS 9 has a date of initial application for ANZ New Zealand of 1 October 2018.

The classification and measurement, and impairment requirements will be applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirements to restate comparative periods. ANZ New Zealand does not intend to restate comparatives. NZ IFRS 9 provides an accounting policy choice to continue with NZ IAS 39 hedge accounting given the International Accounting Standards Board's ongoing project on macro hedge accounting. ANZ New Zealand's current expectation is that it will continue to apply the hedge accounting requirements of NZ IAS 39.

ANZ New Zealand is in the process of assessing the impact of the application of NZ IFRS 9 and is not yet able to reasonably estimate the impact on its financial statements.

***NZ IFRS 15 Revenue from Contracts with Customers* (NZ IFRS 15)**

NZ IFRS 15 was issued in July 2014. NZ IFRS 15 contains new requirements for the recognition of revenue.

NZ IFRS 15 requires identification of distinct performance obligations within a contract and allocation of the transaction price of the contract to those performance obligations. Revenue is recognised as each performance obligation is satisfied. Variable amounts of revenue can only be recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods.

Although a significant proportion of ANZ New Zealand's revenue is outside the scope of NZ IFRS 15, certain revenue streams are in the scope of the standard. NZ IFRS 15 is not mandatorily effective for ANZ New Zealand until 1 October 2018. ANZ New Zealand is in the process of assessing the impact of application of NZ IFRS 15 and is not yet able to reasonably estimate the impact on its financial statements.

NZ IFRS 15 may be applied under different transition approaches which could impact (a) revenue recognised in future periods and (b) the opening adjustment to retained earnings at the relevant date of initial application. ANZ New Zealand has not determined which transition approach it will adopt.

***NZ IFRS 16 Leases* (NZ IFRS 16)**

The final version of NZ IFRS 16 *Leases* was issued in February 2016 and is not effective for ANZ New Zealand until 1 October 2019. NZ IFRS 16 requires a lessee to recognise its right to use the underlying leased asset, as a right-of-use asset, and obligation to make lease payments as a lease liability. NZ IFRS 16 substantially carries forward the lessor accounting requirements in NZ IAS 17 *Leases*.

ANZ New Zealand is in the process of assessing the impact of the application of NZ IFRS 16 and is not yet able to reasonably estimate the impact on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

There are a number of critical accounting treatments which include complex or subjective judgements and estimates that may affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

An explanation of the judgements and estimates made by ANZ New Zealand, in the process of applying its accounting policies, that have the most significant effect on the amounts recognised in the financial statements is set out below.

Critical accounting estimates and assumptions

Credit provisioning

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

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

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

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

Refer to note 14 for details of credit impairment provisions.

Critical judgements in applying ANZ New Zealand's accounting policies

Financial instruments at fair value

ANZ New Zealand's financial instruments measured at fair value are stated in note 1(A)(iii). In estimating fair value ANZ New Zealand uses, wherever possible, quoted market prices in an active market for the financial instrument.

In the event that there is no active market for the instrument, fair value is based on present value estimates or other market accepted valuation techniques. The valuation models incorporate the impact of bid/ask spread, counterparty credit spreads and other factors that would influence the fair value determined by a market participant. The selection of appropriate valuation techniques, methodology and inputs requires judgement. These are reviewed and updated as market practice evolves.

Derivatives and hedging

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

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

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

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

Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities and are often thinly capitalised with a reliance on debt financing for support.

ANZ New Zealand assesses, at inception and periodically, whether a structured entity should be consolidated based on the accounting policy outlined in note 1. Such assessments are predominantly securitisation activities and involvement with managed funds. When

NOTES TO THE FINANCIAL STATEMENTS

assessing whether ANZ New Zealand controls (and therefore consolidates) a structured entity, judgement is required about whether ANZ New Zealand has power over the relevant activities as well as exposure to variable returns of the structured entity. All involvement, rights and exposure to returns are considered when assessing if control exists.

ANZ New Zealand is deemed to have power over a managed fund when it performs the function of Manager of that managed fund. Whether ANZ New Zealand controls the managed fund depends on whether it holds that power as principal, or as an agent for other investors. ANZ New Zealand is considered the principal, and thus controls the managed fund, when it cannot be easily removed from the position of Manager by other investors and has variable returns through significant aggregate economic interest in that managed fund. In all other cases ANZ New Zealand is considered to be acting in an agency capacity and does not control the managed fund.

Structured entities are consolidated when control exists. In other cases ANZ New Zealand may simply have an interest in or may sponsor a structured entity but not consolidate it.

ANZ New Zealand considers itself the sponsor of an unconsolidated structured entity where it is the primary party involved in the design and establishment of that structured entity and where any of the following apply:

- where ANZ New Zealand is the major user of that structured entity
- ANZ New Zealand's name appears in the name of that structured entity or on its products
- ANZ New Zealand provides implicit or explicit guarantees of that entity's performance.

Goodwill

Refer to note 24 for details of goodwill held by ANZ New Zealand.

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

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

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

These cash flow projections are discounted using a capital asset pricing model. As at 28 February 2017 when the last valuation was prepared, a discount rate of 11.5% was applied to each cash generating unit. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each segment.

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

NOTES TO THE FINANCIAL STATEMENTS

3. NET INTEREST INCOME

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Interest income		
Financial assets at fair value through profit or loss		
Trading securities	351	453
Financial assets not at fair value through profit or loss		
Cash	41	64
Available-for-sale assets	106	64
Net loans and advances	5,911	6,160
Other	25	29
	6,083	6,317
Total interest income	6,434	6,770
Interest expense		
Financial liabilities at fair value through profit or loss		
Commercial paper	122	226
Financial liabilities not at fair value through profit or loss		
Deposits and other borrowings	2,347	2,941
Unsubordinated debt	704	386
Subordinated debt	158	154
Other	25	34
	3,234	3,515
Total interest expense	3,356	3,741
Net Interest Income	3,078	3,029

4. NON INTEREST INCOME

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Net trading gains		
Net gain on foreign exchange trading	176	203
Net gain / (loss) on trading securities	(121)	115
Net gain / (loss) on trading derivatives	172	(306)
Net trading gains	227	12
Net funds management and insurance income		
Net funds management income	199	187
Net insurance income	130	227
Total funds management and insurance income	329	414
Other operating income		
Lending and credit facility fee income	35	55
Other fee income	688	656
Total fee income	723	711
Direct fee expense	(328)	(308)
Net fee income	395	403
Net gain / (loss) on financial liabilities designated at fair value	4	(5)
Net ineffectiveness on qualifying fair value hedges	(6)	2
Net loss on derivatives not qualifying for hedge accounting	(60)	(31)
Net cash flow hedge loss transferred to income statement	(12)	(7)
Net loss on available for sale securities transferred to income statement	-	(2)
Other income	34	41
Total other operating income	355	401

NOTES TO THE FINANCIAL STATEMENTS

5. OPERATING EXPENSES

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Personnel		
Salaries and related costs	801	811
Superannuation costs	29	30
Share-based payments expense	15	21
Other	11	32
Total personnel expenses	856	894
Premises		
Depreciation of premises and equipment	32	32
Leasing and rental costs	80	79
Other	41	41
Total premises expenses	153	152
Technology		
Depreciation and amortisation	44	111
Licences and outsourced services	125	116
Other	49	58
Total technology expenses	218	285
Other		
Advertising and public relations	41	42
Amortisation and impairment of other intangible assets	4	5
Freight, stationery, postage and telephone	45	48
Goodwill impairment	3	-
Professional fees	43	45
Travel and entertainment expenses	26	28
Charges from Ultimate Parent Bank	46	64
Other	34	37
Total other expenses	242	269
Total operating expenses	1,469	1,600

NOTES TO THE FINANCIAL STATEMENTS

6. INCOME TAX

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	2,465	2,114
Prima facie income tax at 28%	690	591
Imputed and non-assessable dividends	(1)	(1)
Change in tax provisions	(5)	(5)
Non assessable income and non deductible expenditure	2	(11)
Income tax over provided in prior years	(1)	(2)
Total income tax expense	685	572
Effective tax rate (%)	27.8%	27.1%
Amounts recognised in the income statement		
Current tax	645	582
Deferred tax	40	(10)
Total income tax expense recognised in the income statement	685	572
Imputation credits available	4,196	3,566

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

NOTES TO THE FINANCIAL STATEMENTS

7. SEGMENT ANALYSIS

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

Segment reporting has been updated to reflect minor changes to ANZ New Zealand's structure. Comparative data has been adjusted to be consistent with the current year's segment definitions.

Retail

Retail provides products and services to Retail, Private Banking, and Business Banking customers via the branch network, mortgage specialists, relationship managers, the contact centre and a variety of self service channels (internet banking, phone banking, ATMs, website and mobile phone banking). Retail and Private Banking customers have personal banking requirements and Business Banking customers consist primarily of small enterprises with annual revenues of less than NZ$5 million. Core products and services include current and savings accounts, unsecured lending (credit cards, personal loans and overdrafts), home loans secured by mortgages over property, investment products, superannuation and insurance services.

Commercial

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

Institutional

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

Other

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

Business segment analysis[1]

30/09/2017	Retail NZ$m	Commercial NZ$m	Institutional NZ$m	Other NZ$m	Total NZ$m
External interest income	3,683	2,070	676	5	6,434
External interest expense	(1,474)	(302)	(338)	(1,242)	(3,356)
Net intersegment interest	(437)	(868)	24	1,281	-
Net interest income	1,772	900	362	44	3,078
Other external operating income	675	21	302	(87)	911
Share of associates' profit	5	-	-	-	5
Operating income	2,452	921	664	(43)	3,994
Operating expenses	1,005	259	184	21	1,469
Profit before credit impairment and income tax	1,447	662	480	(64)	2,525
Credit impairment charge / (release)	33	51	(24)	-	60
Profit before income tax	1,414	611	504	(64)	2,465
Income tax expense	395	172	142	(24)	685
Profit after income tax	1,019	439	362	(40)	1,780
Other information					
Depreciation and amortisation	12	1	-	67	80
Goodwill	1,109	1,052	1,069	-	3,230
Other intangible assets	111	2	-	65	178
Investment in associates	7	-	-	-	7
Total external assets	78,843	42,186	36,184	972	158,185
Total external liabilities	68,416	14,176	29,011	35,269	146,872

NOTES TO THE FINANCIAL STATEMENTS

30/09/2016	Retail NZ$m	Commercial NZ$m	Institutional NZ$m	Other NZ$m	Total NZ$m
External interest income	3,836	2,202	722	10	6,770
External interest expense	(1,598)	(333)	(403)	(1,407)	(3,741)
Net intersegment interest	(509)	(980)	52	1,437	-
Net interest income	1,729	889	371	40	3,029
Other external operating income	660	19	104	44	827
Share of associates' profit	5	-	-	-	5
Operating income	2,394	908	475	84	3,861
Operating expenses	1,048	256	179	117	1,600
Profit before credit impairment and income tax	1,346	652	296	(33)	2,261
Credit impairment charge	55	72	20	-	147
Profit before income tax	1,291	580	276	(33)	2,114
Income tax expense	350	163	77	(18)	572
Profit after income tax	941	417	199	(15)	1,542
Other information					
Depreciation and amortisation	12	1	-	135	148
Goodwill	1,109	1,052	1,072	-	3,233
Other intangible assets	118	3	-	70	191
Investment in associates	7	-	-	-	7
Total external assets	75,244	41,639	47,815	2,008	166,706
Total external liabilities	63,607	13,364	41,058	37,510	155,539

[1] Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.

Other segment

The table below sets out the profit/(loss) after tax impact of items included in Other.

	30/09/2017 NZ$m	30/09/2016 NZ$m
Operations and support	1	3
Economic hedges	(50)	(29)
Revaluation of insurance policies from changes in interest rates	(25)	42
Other	34	(31)
Total	(40)	(15)

NOTES TO THE FINANCIAL STATEMENTS

8. NOTES TO THE CASH FLOW STATEMENT

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Reconciliation of profit after income tax to net cash flows provided by / (used in) operating activities		
Profit after income tax	1,780	1,542
Non-cash items:		
Depreciation and amortisation	80	148
Provision for credit impairment	60	147
Deferred fee revenue and expenses	(13)	(7)
Amortisation of capitalised brokerage / mortgage origination fees	171	160
Amortisation of premiums and discounts	89	70
Fair value gains and losses	(153)	31
Loss on disposal and impairment of premises and equipment and intangibles	5	4
Deferrals or accruals of past or future operating cash receipts or payments:		
Change in net operating assets less liabilities	(1,292)	(3,593)
Change in interest receivable	(14)	29
Change in interest payable	10	(63)
Change in accrued expenses	(2)	(73)
Change in provisions	(20)	15
Change in life insurance policy assets	17	(57)
Change in other receivables and payables	(13)	8
Change in net income tax assets / liabilities	80	(69)
Dividends from associates in excess of share of profits	-	(3)
Items classified as investing activities:		
Proceeds from sale of insurance policies	-	(23)
Net cash flows provided by / (used in) operating activities	785	(1,734)

	30/09/2017 NZ$m	30/09/2016 NZ$m
Reconciliation of cash and cash equivalents to the balance sheet		
Cash	2,338	2,274
Amounts included in settlement balances receivable / (payable):		
Nostro accounts	170	45
Overdrawn nostro accounts	(69)	(4)
Total cash and cash equivalents	2,439	2,315

NOTES TO THE FINANCIAL STATEMENTS

9. CASH

	30/09/2017 NZ$m	30/09/2016 NZ$m
Coins, notes and cash at bank	202	193
Securities purchased under agreements to resell	360	229
Balances with central banks	1,776	1,852
Total cash	2,338	2,274

10. TRADING SECURITIES

	30/09/2017 NZ$m	30/09/2016 NZ$m
Government securities	3,299	5,953
Corporate and financial institution securities	4,364	6,026
Total trading securities	7,663	11,979

11. DERIVATIVE FINANCIAL INSTRUMENTS

The use of derivatives and their sale to customers as risk management products is an integral part of ANZ New Zealand's trading activities. Derivatives are also used to manage ANZ New Zealand's own exposure to fluctuations in exchange and interest rates as part of its own asset and liability management activities.

Derivatives are subject to the same types of credit and market risk as other financial instruments and ANZ New Zealand manages these risks in a consistent manner.

Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading.

Derivatives held for trading

The held for trading classification includes two categories of derivative instruments: those held as trading positions and those used for ANZ New Zealand's balance sheet risk management.

Trading positions

Trading positions consist of both sales to customers and market making activities. Sales to customers include the structuring and marketing of derivative products to customers which enable them to take or mitigate risks. Market making activities consist of derivatives entered into principally for the purpose of generating profits from short-term fluctuations in price or margins. Positions may be traded actively or held over a period of time to benefit from expected changes in market rates.

Balance sheet risk management

ANZ New Zealand designates certain balance sheet risk management derivatives into hedging relationships in order to minimise income statement volatility. This volatility is created by differences in the timing of recognition of gains and losses between the derivative and the hedged item. Hedge accounting is not applied to all balance sheet risk management positions as some balance sheet risk management derivatives are classified as held for trading.

NOTES TO THE FINANCIAL STATEMENTS

	30/09/2017			30/09/2016		
	Notional principal amount NZ$m	Fair values Assets NZ$m	Fair values Liabilities NZ$m	Notional principal amount NZ$m	Fair values Assets NZ$m	Fair values Liabilities NZ$m
Derivatives held for trading						
Foreign exchange derivatives						
Spot and forward contracts	105,278	605	696	63,473	635	783
Swap agreements	165,909	1,679	1,959	144,501	1,616	3,639
Options purchased	1,301	17	-	2,379	50	2
Options sold	1,268	2	27	2,248	7	77
	273,756	2,303	2,682	212,601	2,308	4,501
Interest rate derivatives						
Forward rate agreements	33,800	-	-	41,507	1	5
Swap agreements	1,049,546	7,037	6,322	1,170,478	17,853	16,992
Futures contracts	80,583	5	24	78,988	3	46
Options purchased	1,928	3	-	2,366	6	-
Options sold	1,239	-	1	1,603	1	2
	1,167,096	7,045	6,347	1,294,942	17,864	17,045
Commodity derivatives	320	13	14	460	33	32
Total derivatives held for trading	1,441,172	9,361	9,043	1,508,003	20,205	21,578
Derivatives in hedging relationships						
Fair value hedges						
Interest rate swap agreements	38,911	86	635	37,012	271	440
	38,911	86	635	37,012	271	440
Cash flow hedges						
Interest rate swap agreements	22,955	302	216	18,985	493	380
Total derivatives in hedging relationships	61,866	388	851	55,997	764	820
Total derivative financial instruments	1,503,038	9,749	9,894	1,564,000	20,969	22,398

Derivatives in hedging relationships

Fair value hedges

ANZ New Zealand's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates.

Gain / (loss) on fair value hedges attributable to the hedged risk	30/09/2017 NZ$m	30/09/2016 NZ$m
Gain / (loss) arising from fair value hedges:		
- hedged item	203	(84)
- hedging instrument	(209)	86
Net ineffectiveness on qualifying fair value hedges	(6)	2

Cash flow hedges

ANZ New Zealand's cash flow hedges comprise interest rate swaps that are used to protect against exposures to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their forecast repricing profile. This forms the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges.

Analysis of the cash flow hedging reserve	30/09/2017 NZ$m	30/09/2016 NZ$m
Deferred gain / (loss) attributable to hedges of:		
Variable rate loan assets	159	296
Short term re-issuances of fixed rate customer and wholesale deposit liabilities	(116)	(234)
Total cash flow hedging reserve	43	62

All underlying hedged cash flows are expected to be recognised in the income statement in the period in which they occur, which is anticipated to take place over the next ten years (2016: ten years).

NOTES TO THE FINANCIAL STATEMENTS

12. AVAILABLE-FOR-SALE ASSETS

	30/09/2017 NZ$m	30/09/2016 NZ$m
Government securities	4,238	1,195
Corporate and financial institution securities	2,121	1,663
Equity and other securities	1	1
Total available-for-sale assets	6,360	2,859

13. NET LOANS AND ADVANCES

	Note	30/09/2017 NZ$m	30/09/2016 NZ$m
Overdrafts		1,040	1,133
Credit cards outstanding		1,638	1,663
Term loans - housing		76,870	73,330
Term loans - non-housing		44,227	43,651
Finance lease and hire purchase receivables		1,577	1,324
Total gross loans and advances		125,352	121,101
Less: Provision for credit impairment	14	(586)	(632)
Less: Unearned income		(222)	(211)
Add: Capitalised brokerage/mortgage origination fees		336	366
Add: Customer liability for acceptances[1]		-	27
Net loans and advances (including assets classified as held for sale)		124,880	120,651
Less: UDC net loans and advances held for sale	29	(2,912)	-
Net loans and advances		121,968	120,651

[1] Customer liability for acceptances has been recognised in Other assets from 30 September 2017.

NOTES TO THE FINANCIAL STATEMENTS

14. PROVISION FOR CREDIT IMPAIRMENT

Credit impairment charge / (release)

	30/09/2017				30/09/2016			
	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
New and increased provisions	7	94	133	234	23	110	111	244
Write-backs	(18)	(12)	(67)	(97)	(35)	(18)	(30)	(83)
Recoveries	-	(20)	(11)	(31)	-	(22)	(3)	(25)
Individual credit impairment charge / (release)	(11)	62	55	106	(12)	70	78	136
Collective credit impairment charge / (release)	(5)	(9)	(32)	(46)	(2)	3	10	11
Credit impairment charge / (release)	(16)	53	23	60	(14)	73	88	147

Movement in provision for credit impairment

	30/09/2017				30/09/2016			
	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Collective provision								
Balance at beginning of the year	85	130	263	478	87	127	253	467
Charge / (release) to income statement	(5)	(9)	(32)	(46)	(2)	3	10	11
Balance at end of the year	80	121	231	432	85	130	263	478
Individual provision								
Balance at beginning of the year	40	6	108	154	62	9	91	162
New and increased provisions net of write-backs	(11)	82	66	137	(12)	92	81	161
Bad debts written off	(1)	(82)	(50)	(133)	(6)	(95)	(55)	(156)
Discount unwind[1]	(1)	-	(3)	(4)	(4)	-	(9)	(13)
Balance at end of the year	27	6	121	154	40	6	108	154
Total provision for credit impairment	107	127	352	586	125	136	371	632

[1] The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

Impaired assets

	30/09/2017				30/09/2016			
	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Balance at beginning of the year	64	27	342	433	119	32	253	404
Transfers from productive	37	106	430	573	76	129	395	600
Transfers to productive	(20)	(9)	(56)	(85)	(40)	(8)	(7)	(55)
Assets realised or loans repaid	(45)	(22)	(360)	(427)	(85)	(31)	(244)	(360)
Write offs	(1)	(82)	(50)	(133)	(6)	(95)	(55)	(156)
Total impaired assets	35	20	306	361	64	27	342	433
Other assets under administration	9	2	-	11	11	2	-	13
Undrawn facilities with impaired customers	1	-	5	6	-	1	57	58

NOTES TO THE FINANCIAL STATEMENTS

15. DEPOSITS AND OTHER BORROWINGS

	Note	30/09/2017 NZ$m	30/09/2016 NZ$m
Term deposits		45,457	39,665
On demand and short term deposits		41,451	42,323
Deposits not bearing interest		8,882	7,780
UDC secured investments	21	1,039	1,592
Total customer deposits		96,829	91,360
Certificates of deposit		1,916	2,237
Commercial paper		3,721	5,364
Securities sold under repurchase agreements		157	76
Borrowings from Ultimate Parent Bank and Immediate Parent Company	30	6,429	7,871
Deposits and other borrowings (including liabilities classified as held for sale)		109,052	106,908
Less: UDC secured investments held for sale	29	(1,039)	-
Deposits and other borrowings		108,013	106,908

Deposits from customers, except UDC secured investments, are unsecured and rank equally with other unsecured liabilities of ANZ New Zealand. In the unlikely event that the Bank was put into liquidation or ceased to trade, secured creditors and those creditors set out in Schedule 7 of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

16. UNSUBORDINATED DEBT

	Note	30/09/2017 NZ$m	30/09/2016 NZ$m
Domestic bonds		3,900	3,975
U.S. medium term notes[1]		9,004	6,883
Euro medium term notes[1]		3,173	2,792
Covered bonds[1]	21, 28	5,325	6,218
Total unsubordinated debt issued		21,402	19,868
Fair value hedge adjustment		(53)	192
Less: held by the Bank		(26)	(46)
Total unsubordinated debt		21,323	20,014

[1] This unsubordinated debt is issued by ANZ New Zealand (Int'l) Limited and is guaranteed by the Bank.

Unsubordinated debt, other than covered bonds, is unsecured and ranks equally with other unsecured liabilities of ANZ New Zealand.

NZX Regulation has granted the Bank a waiver from NZX Debt Market Listing Rule (Rule) 7.12.1 to the extent that this Rule requires the Bank to release to the market details of any acquisition of the Bank's domestic bonds as a result of its market-making activities or trading on behalf of its clients. The Bank will notify the NZX if any such domestic bonds are subsequently cancelled. Rule 7.12.1 does not extend to the Bank's subsidiaries in this context. The Bank will continue to comply with Rule 7.12.1 in respect of any domestic bonds that are issued, redeemed or purchased by the Bank in any other capacity.

Domestic bonds includes three series of bonds quoted on the NZX Debt Market which mature on 22 March 2019, 2 September 2021 and 1 September 2023 respectively (the Bonds). NZX Regulation has granted the Bank waivers from the requirement in Rule 5.2.3 (as modified by NZX Regulation's Ruling on Rule 5.2.3 issued on 29 September 2015) for the Bonds to be held by at least 100 members of the public holding at least 25% of the Bonds issued (Spread). The effect of these waivers is that the Bonds may not be widely held and there may be reduced liquidity in the Bonds. If there is a material reduction in the Spread of the Bonds, the Bank will notify NZX as appropriate.

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17. SUBORDINATED DEBT

	30/09/2017 NZ$m	30/09/2016 NZ$m
ANZ Capital Notes[1]		
AUD 970m ANZ Capital Notes 3 (ANZ CN3)[2]	1,044	1,005
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN)[3]	497	496
Perpetual subordinated debt		
NZD 835m perpetual subordinated bond[3]	835	835
AUD 10m perpetual subordinated floating rate loan	10	10
Dated subordinated debt		
AUD 265m subordinated floating rate loan	288	278
Total subordinated debt	2,674	2,624

1 These instruments qualify as additional tier 1 capital of the Overseas Banking Group.
2 These instruments are quoted on the Australian Stock Exchange.
3 These instruments are quoted on the NZX Debt Market.

Subordinated debt is subordinated in right of payment in the event of liquidation or wind up to the claims of depositors and all creditors of the relevant issuer or drawer of the debt.

ANZ Capital Notes

- On 5 March 2015, the NZ Branch issued 9.7 million convertible notes (ANZ CN3) at A$100 each, raising A$970 million before issue costs.
- On 31 March 2015, the Bank issued 500 million convertible notes (ANZ NZ CN) at NZ$1 each, raising NZ$500 million before issue costs.

ANZ Capital Notes (the notes) are fully paid mandatorily convertible non-cumulative perpetual subordinated notes.

As at 30 September 2017 ANZ NZ CN carried a BB+ credit rating from Standard and Poor's.

The notes are classified as debt given there are circumstances beyond ANZ New Zealand's control where the principal is converted into a variable number of shares of the Ultimate Parent Bank.

Distributions and interest

Distributions on ANZ CN3 and interest on ANZ NZ CN are recorded as interest expense in the statement of comprehensive income. Distributions and interest on the notes are non-cumulative and payable as follows:

- ANZ CN3: payable semi-annually in arrears in March and September in each year and will be franked in line with the franking applied to ordinary shares of the Ultimate Parent Bank. The distributions are based on a floating rate equal to the aggregate of the Australian 6 month bank bill rate plus a 360 basis point margin, multiplied by one minus the Australian company tax rate. Should the distribution not be fully-franked, the terms of the notes provide for a cash gross-up for the amount of the franking benefit not provided.
- ANZ NZ CN: payable quarterly in arrears in February, May, August and November in each year. The interest rate is fixed at 7.2% per annum until 25 May 2020, and thereafter will be based on a floating rate equal to the aggregate of the New Zealand 3 month bank bill rate plus a 350 basis point margin.

Distributions and interest payments are subject to the Ultimate Parent Bank's (ANZ CN3) and the Bank's (ANZ NZ CN) absolute discretion and certain payment conditions being satisfied (including APRA and RBNZ (ANZ NZ CN only) requirements). If distributions or interest are not paid on the notes, the Ultimate Parent Bank (ANZ CN3) or the Bank (ANZ NZ CN) may not, except in limited circumstances, pay dividends or undertake a share buy-back or other capital reduction on its ordinary shares until the distributions or interest are next paid.

Conversion features

On 24 March 2025 (ANZ CN3) or 25 May 2022 (ANZ NZ CN) or an earlier date under certain circumstances, the relevant notes will mandatorily convert into a variable number of ordinary shares of the Ultimate Parent Bank based on the average market price of the Ultimate Parent Bank's ordinary shares over a specified period prior to conversion less a 1% discount.

The mandatory conversion will be deferred for a specified period if the conversion tests are not met.

If a common equity capital trigger event, an APRA non-viability trigger event or an RBNZ non-viability trigger event (ANZ NZ CN only) occurs, some or all of the notes will be required to be immediately converted into ordinary shares of the Ultimate Parent Bank, subject to a maximum conversion number.

NOTES TO THE FINANCIAL STATEMENTS

A common equity capital trigger event occurs if the:

- Overseas Banking Group's Level 1 (ANZ CN3 only) or Level 2 common equity tier 1 capital ratio is equal to or less than 5.125% or
- Banking Group's common equity tier 1 capital ratio is equal to or less than 5.125% (ANZ NZ CN only).

An APRA non-viability trigger event occurs if APRA notifies the Ultimate Parent Bank that, without the conversion or write-off of certain securities or a public sector injection of capital (or equivalent support), it considers that the Ultimate Parent Bank would become non-viable. An RBNZ non-viability trigger event occurs if the RBNZ directs the Bank to convert or write off the notes or a statutory manager is appointed to the Bank and decides the Bank must convert or write off the notes.

On 25 May 2020 the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's and APRA's prior approval), or to convert into ordinary shares of the Ultimate Parent Bank, all or some of the ANZ NZ CN at its discretion on similar terms as mandatory conversion.

On 24 March 2023 the Ultimate Parent Bank has the right, subject to receiving APRA's prior approval and satisfying certain conditions, to redeem, or to convert into ordinary shares of the Ultimate Parent Bank, all or some of the ANZ CN3 at its discretion on similar terms as mandatory conversion.

Rights of holders in event of liquidation

In a liquidation of the Ultimate Parent Bank, ANZ CN3 rank equally with other additional tier 1 capital instruments issued by the Ultimate Parent Bank. In a liquidation of the Bank, ANZ NZ CN rank equally with the Bank's other additional tier 1 capital instruments, including preference shares, and lower than the Bank's perpetual subordinated debt. Holders of the notes do not have any right to vote in general meetings of the Ultimate Parent Bank or the Bank.

Perpetual subordinated debt

Perpetual subordinated debt instruments are classified as debt reflecting an assessment of the key terms and conditions of the instruments, and an assessment of the ability, and likelihood of interest payments being deferred. Certain of these instruments have interrelationships that have been considered in this assessment.

NZD 835,000,000 bond

This bond was issued by the Bank on 18 April 2008.

The Bank may elect to redeem the bond on 18 April 2018 (the Call Date) or any interest payment date subsequent to 18 April 2018. Interest is payable semi-annually in arrears on 18 April and 18 October each year, up to and including the Call Date and then quarterly thereafter. Should the bond not be called at the Call Date, the Coupon Rate from the Call Date onwards will be based on a floating rate equal to the aggregate of the 3 month bank bill rate plus a 300 basis point margin.

As at 30 September 2017, this bond carried a BBB rating by Standard and Poor's and a Baa1 rating by Moody's.

The coupon interest on the bond is 5.28% per annum until 18 April 2018.

AUD 10,000,000 loan

This loan was drawn down by the Bank on 27 March 2013 and has no fixed maturity. Interest is payable semi-annually in arrears on 15 March and 15 September each year. The Bank may repay the loan on any interest payment date after the NZD 835,000,000 bond has been repaid in full.

Coupon interest is based on a floating rate equal to the aggregate of the Australian 6 month bank bill rate plus a 240 basis point margin, increasing to the Australian 6 month bank bill rate plus a 440 basis point margin from 15 September 2018.

Dated subordinated debt

AUD 265,017,668 loan

This loan was drawn down by ANZ Holdings (New Zealand) Limited on 25 September 2013. The loan matures on 1 September 2023, but ANZ Holdings (New Zealand) Limited may elect to repay the loan on any interest payment date from 1 September 2018. Interest is payable semi-annually in arrears on 1 March and 1 September in each year and is based on a floating rate equal to the aggregate of the Australian 6 month bank bill rate plus a 260 basis point margin.

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

Financial instruments are fundamental to ANZ New Zealand's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by ANZ New Zealand. Financial instruments create, modify or reduce the credit, market and liquidity risks of ANZ New Zealand's balance sheet. ANZ New Zealand's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of ANZ New Zealand.

The risk management and policy control framework applicable to the entities comprising ANZ New Zealand has been set by the Board and Risk Committee of the Bank or the Ultimate Parent Bank, as appropriate. Likewise oversight and monitoring of material risk exposures of ANZ New Zealand is undertaken by the Risk Management functions of the Bank and also the Ultimate Parent Bank. Throughout this document, references to the Risk Management of the operations within the entities comprising ANZ New Zealand, implicitly involves oversight by both related entities.

Credit risk

Credit risk is the risk of financial loss from counterparties being unable to fulfil their contractual obligations. ANZ New Zealand assumes credit risk in a wide range of lending and other activities in diverse markets and many jurisdictions. Credit risks arise not only from traditional lending to customers, but also from inter-bank, treasury, international trade and capital market activities around the world.

Credit risk incorporates the risks associated with ANZ New Zealand 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.

ANZ New Zealand has an overall lending objective of sound growth for appropriate returns. The credit risk objectives of ANZ New Zealand are set by each Board and are implemented and monitored within a tiered structure of delegated authority, designed to oversee multiple facets of credit risk, including business writing strategies, credit policies/controls, single exposures, portfolio monitoring and risk concentrations.

Credit risk management

A credit risk management framework is in place across ANZ New Zealand with the aim of ensuring a structured and disciplined approach is maintained in achieving the objectives set by each Board. The framework focuses on policies, people, skills, controls, risk concentrations and portfolio balance. It is supported by portfolio analysis and business-writing strategies, which guide lending decisions and identify segments of the portfolio requiring attention. The effectiveness of the framework is monitored through a series of compliance and reporting processes.

An independent Risk Management function is staffed by risk specialists. In regard to credit risk management, the objective is for Risk Management to provide robust credit policies, to make independent credit decisions, and to provide strong support to front line staff in the application of sound credit practices. In addition to providing independent credit assessment on lending decisions, Risk Management also performs key roles in portfolio management by development and validation of credit risk measurement systems, loan asset quality reporting, and development of credit standards and policies.

The credit risk management framework is top down. The framework is defined by ANZ New Zealand's credit principles and policies. The effectiveness of the credit risk management framework is validated through the compliance and monitoring processes.

Risk Management's responsibilities for credit risk policy and management are executed through dedicated departments, which support the business units. All major business unit credit decisions require approval from both business writers and independent risk personnel.

Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent upon the level of risk. For the key operating entities within ANZ New Zealand, credit risk policy and management is executed through the Chief Risk Officer, who is responsible for various dedicated areas within the Risk Management division. A formal outsourcing agreement provides for credit risk functions to be provided to a number of ANZ New Zealand entities by staff of the Bank.

Credit risk review function Group Credit Assurance also provides a further independent check mechanism to ensure the quality of credit decisions. This includes providing independent periodic checks on asset quality and compliance with the agreed standards and policies across ANZ New Zealand.

NOTES TO THE FINANCIAL STATEMENTS

Country risk management

Some customer credit risks involve country risk, whereby actions or events at a national or international level could disrupt servicing of commitments. Country risk arises when payment or discharge of an obligation will, or could, involve the flow of funds from one country to another or involve transactions in a currency other than the domestic currency of the relevant country.

Country ratings are assigned to each country where ANZ New Zealand incurs country risk and have a direct bearing on ANZ New Zealand's risk appetite for each country. The country rating is determined through a defined methodology based around external ratings agencies' ratings and internal specialist opinion. It is also a key risk consideration in ANZ New Zealand's capital pricing model for cross border flows.

The recording of country limits provides ANZ New Zealand with a means to identify and control country risk. Country limits ensure that there is a country-by-country ceiling on exposures that involve country risk. They are recorded by time to maturity and purpose of exposure, e.g., trade, markets and project finance. Country limits are managed centrally by the Ultimate Parent Bank, through a global country risk exposure management system managed by a specialist unit within Institutional Risk.

Portfolio stress testing

Stress testing is integral to strengthening the predictive approach to Risk Management and is a key component to managing risk appetite and business writing strategies. It creates greater understanding of impacts on financial performance through modelling relationships and sensitivities between geographic, industry and business unit exposures under a range of macro economic scenarios.

The Ultimate Parent Bank has a dedicated stress testing team that assists business and risk executives in ANZ New Zealand to model and report periodically to management and the Board Risk Committee on a range of scenarios and stress tests.

Portfolio analysis and reporting

Credit portfolios are actively monitored at each layer of the risk structure to ensure credit deterioration is quickly detected and mitigated through the implementation of remediation strategies.

Businesses incurring credit risk undertake regular and comprehensive analysis of their credit portfolios. Issue identification and adherence to performance benchmarks are reported to Risk Management and business executives through a series of reports including monthly 'asset quality' reporting. This process is undertaken by or overseen by Risk Management ensuring an efficient and independent conduit exists to identify and communicate emerging credit issues to ANZ New Zealand executives and each Board.

Collateral management

ANZ New Zealand credit principles specify lending only what the counterparty has the capacity and ability to repay and ANZ New Zealand sets limits on the acceptable level of credit risk. Acceptance of credit risk is firstly based on the counterparty's assessed capacity to meet contractual obligations (ie interest and capital repayments). Obtaining collateral is only used to mitigate credit risk. Procedures are designed to ensure collateral is managed, legally enforceable, conservatively valued and adequately insured where appropriate. ANZ New Zealand policy sets out the types of acceptable collateral, including:

- Cash
- Mortgages over property
- Charges over business assets, eg premises, stock and debtors
- Charges over financial instruments, eg debt securities and equities in support of trading facilities
- Financial guarantees.

In the event of customer default, any loan security is usually held as mortgagee in possession while action is taken to realise it. Therefore ANZ New Zealand does not usually hold any real estate or other assets acquired through the enforcement of security.

ANZ New Zealand uses International Swaps and Derivatives Association Master Agreements (ISDA) to document derivatives' activities to limit exposure to credit losses. The credit risk is reduced by a master agreement to the extent that, if an event of default occurs, all contracts with the counterparty are terminated and settled on a net basis. Further, it is ANZ New Zealand's preferred practice to include all products covered by the ISDA in the Credit Support Annex (CSA) in order to achieve further credit exposure reduction. Under a CSA, collateral is passed between the parties, depending on the aggregate mark-to-market (positive or negative) of derivative trades between the two entities, to mitigate the market contingent counterparty risk inherent in the outstanding positions.

NOTES TO THE FINANCIAL STATEMENTS

Concentrations of credit risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

ANZ New Zealand monitors its portfolios to identify and assess risk concentrations. Concentration limits are used to guard against large single customer or correlated credit risks. Risk Management, Business Unit executives and senior management monitor large exposure concentrations through a monthly list of ANZ New Zealand's top corporate exposures. The ANZ Credit and Market Risk Committee and Board Risk Committee regularly review a comprehensive list of single customer concentration limits and customers' adherence to these limits.

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

The presentation of these tables has changed from previous periods to align this disclosure with the classifications in the data series *S34 – Banks: Assets – Loans by industry* published by the RBNZ. This series uses ANZSIC 2006 industry classifications rather than ANZSIC 1996 that were previously used. Updated corresponding amounts as at 30 September 2016 have been provided for comparative purposes. The most significant changes to the 30 September 2016 amounts from the previous presentation are:

1. Industry classification is now shown separately for New Zealand residents and non-New Zealand residents
2. The reduction in exposures to households, previously described as personal lending, is due to the reclassification of loans secured by rental properties to the relevant customer's industry, of which the majority are now included in rental, hiring and real estate services.

30/09/2017	Cash, settlements receivable and collateral paid NZ$m	Trading securities and available-for-sale assets NZ$m	Derivative financial instruments NZ$m	Net loans and advances[3] NZ$m	Other financial assets NZ$m	Credit related commitments[4] NZ$m	Total NZ$m
New Zealand residents							
Agriculture	-	-	25	17,689	58	1,436	19,208
Forestry and fishing, agriculture services	-	-	1	1,277	4	240	1,522
Manufacturing	-	14	146	2,730	9	1,798	4,697
Electricity, gas, water and waste services	-	15	437	1,602	5	1,522	3,581
Construction	-	-	13	1,640	5	1,119	2,777
Wholesale trade	-	-	49	1,630	5	1,357	3,041
Retail trade and accommodation	-	1	17	3,065	10	1,133	4,226
Transport, postal and warehousing	-	9	55	1,442	5	894	2,405
Finance and insurance services	2,296	1,709	896	905	338	1,010	7,154
Public administration and safety[1]	-	7,477	621	412	1	794	9,305
Rental, hiring & real estate services	-	-	114	31,649	104	3,699	35,566
Professional, scientific, technical, administrative and support services	-	1	5	1,290	4	619	1,919
Households	-	-	-	54,765	180	11,878	66,823
All other New Zealand residents[2]	-	5	129	2,636	8	1,474	4,252
	2,296	9,231	2,508	122,732	736	28,973	166,476
Overseas							
Finance and insurance services	1,795	4,325	7,017	123	-	155	13,415
Households	-	-	-	1,529	5	-	1,534
All other non-NZ residents	-	467	224	968	3	-	1,662
	1,795	4,792	7,241	2,620	8	155	16,611
Less: Provision for credit impairment	-	-	-	(502)	-	(84)	(586)
Less: Unearned income	-	-	-	(222)	-	-	(222)
Add: Capitalised brokerage / mortgage origination fees	-	-	-	336	-	-	336
Total financial assets	4,091	14,023	9,749	124,964	744	29,044	182,615

NOTES TO THE FINANCIAL STATEMENTS

30/09/2016	Cash, settlements receivable and collateral paid NZ$m	Trading securities and available-for-sale assets NZ$m	Derivative financial instruments NZ$m	Net loans and advances[3] NZ$m	Other financial assets NZ$m	Credit related commitments[4] NZ$m	Total NZ$m
New Zealand residents							
Agriculture	-	-	23	17,779	58	1,366	19,226
Forestry and fishing, agriculture services	-	-	21	1,231	4	242	1,498
Manufacturing	-	12	185	3,556	12	2,012	5,777
Electricity, gas, water and waste services	-	21	642	1,298	4	1,255	3,220
Construction	-	-	17	1,584	5	1,030	2,636
Wholesale trade	-	-	23	1,645	5	1,596	3,269
Retail trade and accommodation	-	-	63	3,071	10	1,110	4,254
Transport, postal and warehousing	-	5	91	1,380	5	924	2,405
Finance and insurance services	2,931	2,569	1,011	807	281	952	8,551
Public administration and safety[1]	-	7,028	1,049	352	5	750	9,184
Rental, hiring & real estate services	-	-	75	29,439	96	3,562	33,172
Professional, scientific, technical, administrative and support services	-	-	9	1,173	4	734	1,920
Households	-	-	-	52,514	172	11,486	64,172
All other New Zealand residents[2]	-	46	244	2,555	8	2,305	5,158
	2,931	9,681	3,453	118,384	669	29,324	164,442
Overseas							
Finance and insurance services	1,856	4,703	17,504	95	-	183	24,341
Households	-	-	-	1,444	5	-	1,449
All other non-NZ residents	-	454	12	1,205	4	-	1,675
	1,856	5,157	17,516	2,744	9	183	27,465
Less: Provision for credit impairment	-	-	-	(528)	-	(104)	(632)
Less: Unearned income	-	-	-	(211)	-	-	(211)
Add: Capitalised brokerage / mortgage origination fees	-	-	-	366	-	-	366
Total financial assets	4,787	14,838	20,969	120,755	678	29,403	191,430

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

NOTES TO THE FINANCIAL STATEMENTS

Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk for on and off balance sheet financial instruments before taking account of the financial effect of any collateral held or other credit enhancements, unless such collateral meets the offsetting criteria in NZ IAS 32 *Financial Instruments: Presentation*.

The table also provides a quantification of the value of the financial charges ANZ New Zealand holds over a borrower's specific asset (or assets) where ANZ New Zealand is able to enforce the collateral in satisfying a debt in the event of the borrower failing to meet its contractual obligations. For the purposes of this disclosure, where the collateral held is valued at more than the corresponding credit exposure, the financial effect is capped at the value of the credit exposure. In respect of derivative financial instruments, the assessed collateral is the amount of cash collateral received and does not include the effect of any netting arrangements under ISDAs.

The assignable value of credit mitigants, such as guarantees and security interests over the assets of a customer's business, is less certain and their financial effect has not been quantified for disclosure purposes. Credit exposures shown as not fully secured may benefit from such credit mitigants.

	30/09/2017			30/09/2016		
	Maximum exposure to credit risk	Financial effect of collateral	Unsecured portion of credit exposure	Maximum exposure to credit risk	Financial effect of collateral	Unsecured portion of credit exposure
	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m
On and off-balance sheet positions						
Cash	2,140	360	1,780	2,081	229	1,852
Settlement balances receivable	536	266	270	396	265	131
Collateral paid	1,415	-	1,415	2,310	-	2,310
Trading securities	7,663	-	7,663	11,979	-	11,979
Derivative financial instruments	9,749	613	9,136	20,969	529	20,440
Available-for-sale assets	6,360	-	6,360	2,859	-	2,859
Net loans and advances	124,964	115,225	9,739	120,755	110,370	10,385
Other financial assets	744	378	366	678	361	317
Credit related commitments	29,044	14,526	14,518	29,403	15,193	14,210
Total exposure to credit risk	182,615	131,368	51,247	191,430	126,947	64,483

Credit quality

A core component of ANZ New Zealand's credit risk management capability is the risk grading framework used across all major business units. A set of risk grading principles and policies is supported by a complementary risk grading methodology. Pronouncements by the International Basel Committee on Banking Supervision have been encapsulated in these principles and policies, including governance, validation and modelling requirements.

ANZ New Zealand's risk grade profile changes dynamically through new counterparty lending and existing counterparty movements in either risk or volume. All counterparty risk grades are subject to frequent review, including statistical and behavioural reviews in consumer and small business segments, and individual counterparty reviews in segments with larger single name borrowers.

Impairment and provisioning of financial assets

ANZ New Zealand's policy relating to the recognition and measurement of impaired assets conforms to the RBNZ's guidelines.

Loans are classified as either performing or impaired. Impaired assets are credit exposures where: there is doubt as to whether the full contractual amount (including interest) will be received; a material credit obligation is 90 days past due but not well secured; they are portfolio managed and can be held for up to 180 days past due; or concessional terms have been provided due to the financial difficulties of the customer.

An exposure is classified as past due but not impaired (less than 90 days) where the value of collateral is sufficient to repay both the principal debt and all other potential interest or there is no concern as to the creditworthiness of the counterparty in question.

The past due but not impaired (over 90 days) classification applies where contractual payments are past due by 90 days or more, or where the facility remains outside of contractual arrangements for 90 or more consecutive days, but ANZ New Zealand believes that impairment is not appropriate on the basis of the level of security/collateral available, or the facility is portfolio managed.

The provision for credit impairment represents management's best estimate of the losses incurred in the loan portfolio at balance date based on its experienced judgement.

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Distribution of gross loans and advances assets by credit quality

The credit quality of the portfolio of loans and advances is assessed by reference to ANZ New Zealand's risk grading principles and policies supported by a complementary risk grading methodology.

	30/09/2017				30/09/2016			
	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Strong risk rating	63,242	1,330	20,922	85,494	62,528	1,263	20,296	84,087
Satisfactory risk rating	9,662	3,153	21,995	34,810	6,842	2,997	22,309	32,148
Substandard but not past due or impaired	489	435	1,678	2,602	336	539	1,928	2,803
Total neither past due nor impaired	73,393	4,918	44,595	122,906	69,706	4,799	44,533	119,038
Past due but not impaired:								
1 to 5 days	391	113	543	1,047	359	125	350	834
6 to 29 days	211	74	99	384	170	73	42	285
1 to 29 days	602	187	642	1,431	529	198	392	1,119
30 to 59 days	100	34	171	305	136	32	62	230
60 to 89 days	114	18	12	144	106	17	6	129
90 days and over	155	31	19	205	103	26	23	152
Total past due but not impaired	971	270	844	2,085	874	273	483	1,630
Total impaired assets	35	20	306	361	64	27	342	433
Gross loans and advances	74,399	5,208	45,745	125,352	70,644	5,099	45,358	121,101

Credit quality of gross loans and advances neither past due nor impaired

The credit quality of financial assets is assessed by ANZ New Zealand using internal ratings which aim to reflect the relative ability of counterparties to fulfil, on time, their credit-related obligations, and is based on their current probability of default.

Internal ratings

Strong risk rating - Corporate customers demonstrating superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events. Retail customers with low expected loss. This rating band broadly corresponds to ratings "Aaa" to "Ba1" and "AAA" to "BB+" of Moody's Investors Service and Standard & Poor's respectively.

Satisfactory risk rating - Corporate customers consistently demonstrating sound operational and financial stability over the medium to long term, even though some may be susceptible to cyclical trends or variability in earnings. Retail customers with moderate expected loss. This rating band broadly corresponds to ratings "Ba2" to "B1" and "BB" to "B+" of Moody's Investors Service and Standard & Poor's respectively.

Substandard but not past due or impaired - Corporate customers demonstrating some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. Retail customers with higher expected loss. This rating band broadly corresponds to ratings "B2" to "Caa" and "B" to "CCC" of Moody's Investors Service and Standard & Poor's respectively.

Movements in the rating categories between balance dates are due to both changes in the underlying internal ratings applied to customers and to new loans written or loans rolling off.

Credit quality of financial assets that are past due but not impaired

Ageing analysis of past due loans is used by ANZ New Zealand to measure and manage credit quality. Financial assets that are past due but not impaired include those:

- Assessed, approved and managed on a portfolio basis within a centralised environment (for example, credit cards and personal loans)
- Held on a productive basis until they are 180 days past due
- Managed on an individual basis.

A large portion of retail credit exposures, such as residential mortgages, are generally well secured. That is, the fair value of associated security is sufficient to ensure that ANZ New Zealand will recover the entire amount owing over the life of the facility and there is reasonable assurance that collection efforts will result in payment of the amounts due in a timely manner.

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Market risk

Market risk is the risk to ANZ New Zealand's earnings arising from changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices. Market risk is generated through both trading activities and the interest rate risk inherent in the banking book.

ANZ New Zealand conducts trading operations in interest rates, foreign exchange, commodities and debt securities.

ANZ New Zealand has a detailed risk management and control framework to support its trading and balance sheet management activities. The framework incorporates a risk measurement approach to quantify the magnitude of market risk within trading and balance sheet portfolios. This approach, and related analysis, identifies the range of possible outcomes that can be expected over a given period of time, establishes the relative likelihood of those outcomes and allocates an appropriate amount of capital to support these activities.

Market risk management and control responsibilities

The Board Risk Committee has delegated responsibility for the oversight of market risk to the Asset & Liability Committee (ALCO), chaired by the Chief Financial Officer of the Bank. ALCO is required to ensure that market risk exposure across Traded and Non-Traded portfolios remains within the risk appetite specified by the Board Risk Committee. ALCO receives regular reporting on a range of trading and balance sheet market risk exposures.

The Risk Management division of ANZ New Zealand, through the Chief Risk Officer, is responsible for the day-to-day oversight of market risk. This includes the implementation of a comprehensive limit and policy framework to control the amount of risk that the Banking Group will accept. Market risk limits are allocated at various levels and are reported and monitored on a daily basis. The detailed limit framework allocates individual limits to manage and control asset classes (e.g., interest rates, foreign exchange), risk factors (e.g., interest rates, volatilities) and profit and loss limits (to monitor and manage the performance of the trading portfolios).

Additional oversight and monitoring of material risk exposures of ANZ New Zealand is undertaken by the Risk Management functions of the Ultimate Parent Bank.

Within overall strategies and policies, the control of market risk is the joint responsibility of business units and Risk Management, with the delegation of market risk limits from the Board Risk Committee to both Risk Management and the business units.

These risks are monitored daily against a comprehensive limit framework that includes Value at Risk, aggregate market position and sensitivity, product and geographic thresholds. To facilitate the management, control, measurement and reporting of market risk, ANZ New Zealand has grouped market risk into two broad categories:

a. Traded market risk

This is the risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. They arise in trading transactions where ANZ New Zealand acts as principal with clients or with the market. The primary risk categories monitored are:

- Currency risk is the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.
- Interest rate risk is the potential loss arising from the change in the value of a financial instrument due to changes in market interest rates or their implied volatilities.
- Credit spread risk is the potential loss arising from a change in value of an instrument due to a movement of its margin or spread relative to a bench mark.

b. Non-traded market risk (or balance sheet risk)

This comprises the management of non-traded interest rate risk, liquidity, and the risk to capital and earnings as a result of movements in market rates.

Some instruments do not fall into either category but also expose ANZ New Zealand to market risk. These include equity securities classified as available-for-sale. Regular reviews are performed to substantiate the valuation of these types of instruments.

In all trading areas ANZ New Zealand has implemented models that calculate Value at Risk (VaR) exposures, monitor risk exposures against defined limits on a daily basis, and "stress test" trading portfolios.

VaR measure

A key measure of market risk is VaR. VaR is a statistical estimate of the likely daily loss and is based on historical market movements.

The confidence level is such that there is a 99% probability that the loss will not exceed the VaR estimate on any given day. Conversely there is 1% probability of the decrease in market value exceeding the VaR estimate on any given day.

ANZ New Zealand's standard VaR approach for both traded and non-traded risk is historical simulation. ANZ New Zealand calculates VaR using historical changes in market rates and prices over the previous 500 business days. Traded and Non-Traded VaR is calculated using a one-day holding period.

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It should be noted that because VaR is driven by actual historical observations, it is not an estimate of the maximum loss that ANZ New Zealand could experience from an extreme market event. As a result of this limitation, ANZ New Zealand utilises a number of other risk measures (e.g. stress testing) and associated detailed control limits to measure and manage market risk.

Traded market risks

	30/09/2017				30/09/2016			
	Value at risk at 99% confidence				Value at risk at 99% confidence			
	Period end	High for year	Low for year	Average for year	Period end	High for year	Low for year	Average for year
	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m
Foreign exchange risk	0.1	1.2	0.1	0.4	0.2	0.9	0.1	0.4
Interest rate risk	3.0	5.8	1.3	2.5	2.1	4.9	1.3	2.6
Credit spread risk	0.6	0.8	0.4	0.6	0.5	0.7	0.3	0.5
Diversification benefit	0.9	n/a	n/a	(0.9)	(0.7)	n/a	n/a	(1.0)
Total VaR	4.6	5.3	1.4	2.6	2.1	4.4	1.3	2.5

Traded market risk VaR is calculated separately for foreign exchange and for interest rate/debt markets businesses as well as for ANZ New Zealand. The diversification benefit reflects the historical correlation between foreign exchange, interest rate and debt markets.

To supplement the VaR methodology, ANZ New Zealand applies a wide range of stress tests, both on individual portfolios and at ANZ New Zealand level. ANZ New Zealand's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of ANZ New Zealand.

Non-traded market risk (or balance sheet risk)

The principal objectives of balance sheet management are to manage net interest income sensitivity while maintaining acceptable levels of interest rate and liquidity risk and to manage the market value of ANZ New Zealand's capital. Liquidity risk is dealt with in the next section.

Interest rate risk

The objective of balance sheet interest rate risk management is to mitigate the negative impact of movements in wholesale interest rates on the earnings of ANZ New Zealand's banking book. Non-traded interest rate risk relates to the potential adverse impact to earnings from changes in market interest rates. This risk arises from two principal sources: mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets.

As part of normal business activity ANZ New Zealand has additional risks from fixed rate mortgage prepayments and basis risk:

- Prepayment risk is the potential risk to earnings or market value from when a customer prepays all or part of a fixed rate loan and where any customer fee charged is not sufficient to offset the loss in value to ANZ New Zealand of this financial asset due to movements in interest rates and other pricing factors. As far as possible the true economic cost is passed through to customers in line with their terms and conditions and relevant legislation.
- Basis risk is the potential risk to earnings or market value from differences between customer pricing and wholesale market pricing. This is managed through active review of product margins.

Non-traded interest rate risk is managed to both value and earnings at risk limits. Interest rate risk is reported using three measures: VaR; scenario analysis (to a 1% shock); and interest rate sensitivity gap. This treatment excludes the effect of prepayment and basis risk.

a. *Non-traded interest rate risk VaR*

	Period end	High for year	Low for year	Average for year
	NZ$m	NZ$m	NZ$m	NZ$m
30/09/2017				
Value at risk at 99% confidence	8.3	10.2	7.3	8.2
30/09/2016				
Value at risk at 99% confidence	9.7	10.3	7.7	8.9

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b. Scenario analysis – a 1% shock on the next 12 months' net interest income

A 1% overnight parallel positive shift in the yield curve is modelled to determine the potential impact on net interest income over the succeeding 12 months. This is a standard risk quantification tool.

The figures in the table below indicate the outcome of this risk measure for the current and comparative periods – expressed as a percentage of reported net interest income. The sign indicates the nature of the rate sensitivity with a positive number signifying that a rate increase is positive for net interest income over the next 12 months. Conversely, a negative number signifies that a rate increase is negative for the next 12 months' net interest income.

	30/09/2017	30/09/2016
Impact of 1% rate shock		
Period end	0.6%	0.3%
Maximum exposure	0.9%	1.6%
Minimum exposure	-0.3%	-0.3%
Average exposure (in absolute terms)	0.4%	0.7%

The extent of mismatching between the repricing characteristics and timing of interest bearing assets and liabilities at any point has implications for future net interest income.

Interest rate sensitivity gap

The interest rate sensitivity gap analysis provides information about ANZ New Zealand's exposure to interest rate risk.

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability funding. These mismatches are managed within policy guidelines for mismatch positions.

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

The repricing gaps are based upon contractual repricing.

30/09/2017	Total NZ$m	Up to 3 months NZ$m	Over 3 to 6 months NZ$m	Over 6 to 12 months NZ$m	Over 1 to 2 years NZ$m	Over 2 years NZ$m	Not bearing interest NZ$m
Assets							
Cash	2,338	2,140	-	-	-	-	198
Settlement balances receivable	536	129	-	-	-	-	407
Collateral paid	1,415	1,415	-	-	-	-	-
Trading securities	7,663	496	268	241	2,025	4,633	-
Derivative financial instruments	9,749	-	-	-	-	-	9,749
Available-for-sale assets	6,360	713	250	603	1,465	3,328	1
Net loans and advances[1]	124,880	62,198	8,782	19,941	22,573	11,818	(432)
Other financial assets[1]	744	77	14	29	3	-	621
Total financial assets	153,685	67,168	9,314	20,814	26,066	19,779	10,544
Liabilities							
Settlement balances payable	1,687	630	-	-	-	-	1,057
Collateral received	613	613	-	-	-	-	-
Deposits and other borrowings[1]	109,052	74,223	12,925	8,051	2,855	2,116	8,882
Derivative financial instruments	9,894	-	-	-	-	-	9,894
Unsubordinated debt	21,323	3,511	1,567	125	3,420	12,700	-
Subordinated debt	2,674	-	1,342	835	-	497	-
Other financial liabilities[1]	768	151	-	-	-	-	617
Total financial liabilities	146,011	79,128	15,834	9,011	6,275	15,313	20,450
Hedging instruments	-	3,704	(1,990)	3,409	(5,031)	(92)	-
Interest sensitivity gap	7,674	(8,256)	(8,510)	15,212	14,760	4,374	(9,906)

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30/09/2016	Total NZ$m	Up to 3 months NZ$m	Over 3 to 6 months NZ$m	Over 6 to 12 months NZ$m	Over 1 to 2 years NZ$m	Over 2 years NZ$m	Not bearing interest NZ$m
Assets							
Cash	2,274	2,081	-	-	-	-	193
Settlement balances receivable	396	48	-	-	-	-	348
Collateral paid	2,310	2,310	-	-	-	-	-
Trading securities	11,979	1,092	243	308	2,090	8,246	-
Derivative financial instruments	20,969	-	-	-	-	-	20,969
Available-for-sale assets	2,859	1,956	149	50	160	543	1
Net loans and advances	120,651	63,666	9,000	19,839	19,898	8,726	(478)
Other financial assets	678	65	25	17	12	-	559
Total financial assets	162,116	71,218	9,417	20,214	22,160	17,515	21,592
Liabilities							
Settlement balances payable	1,554	666	-	-	-	-	888
Collateral received	529	529	-	-	-	-	-
Deposits and other borrowings	106,908	73,258	11,988	10,120	2,460	1,302	7,780
Derivative financial instruments	22,398	-	-	-	-	-	22,398
Unsubordinated debt	20,014	4,342	-	1,087	2,843	11,742	-
Subordinated debt	2,624	-	1,293	-	835	496	-
Payables and other liabilities	654	51	-	-	9	124	470
Total financial liabilities	154,681	78,846	13,281	11,207	6,147	13,664	31,536
Hedging instruments	-	20,128	(14,284)	4,412	(13,121)	2,865	-
Interest sensitivity gap	7,435	12,500	(18,148)	13,419	2,892	6,716	(9,944)

[1] Includes UDC items classified as held for sale

Foreign currency related risks

This risk relates to the potential loss arising from the decline in the value of foreign currency positions due to changes in foreign exchange rates.

For non-traded instruments in foreign currencies, the risk is monitored and is hedged in accordance with policy. Risk arising from individual funding and other transactions is actively managed. The total amounts of unmatched foreign currency assets and liabilities, and consequent foreign currency exposures arising from each class of financial asset and liability, whether recognised or unrecognised, within each currency are not material.

The net open position in each foreign currency represents the net on-balance sheet assets and liabilities in that foreign currency aggregated with the net expected future cash flows from off-balance sheet purchases and sales from foreign exchange transactions in that foreign currency. The amounts are stated in New Zealand dollar equivalents translated using the spot exchange rates as at balance sheet date.

	30/09/2017 NZ$m	30/09/2016 NZ$m
Net open position		
Australian dollar	24	26
Euro	-	6
Japanese yen	3	(3)
US dollar	13	(5)
Other	2	1
Total net open position	42	25

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Liquidity risk

Liquidity risk is the risk that ANZ New Zealand is unable to meet its payment obligations as they fall due. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is closely monitored by ANZ New Zealand.

ANZ New Zealand's liquidity and funding risks are governed by a detailed policy framework which is approved by the Risk Committees of the Bank's and Ultimate Parent Bank's Boards. The core objective of ANZ New Zealand's framework is to manage liquidity to meet obligations as they fall due, without incurring unacceptable losses.

Central to ANZ New Zealand's liquidity risk management approach is the establishment of a liquidity risk appetite framework to which ANZ New Zealand must conform at all times. The risk appetite for liquidity has been set as low, and this objective is achieved by ANZ New Zealand managing liquidity risks within the boundaries of the following requirements and principles:

- Maintaining the ability to meet all payment obligations in the immediate term.
- Ensuring the ability to meet "survival horizons" under ANZ New Zealand specific and general market liquidity stress scenarios.
- Maintaining strength in ANZ New Zealand's balance sheet structure to ensure long term resilience in ANZ New Zealand's liquidity and funding risk profile.
- Limiting the potential earnings at risk associated with unexpected increases in funding costs or the liquidation of assets under stress.
- Ensuring the liquidity management framework is compatible with regulatory requirements.
- Daily liquidity reporting and scenario analysis, quantifying ANZ New Zealand's positions.
- Targeting a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency.
- Holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations.
- Establishing detailed contingency plans to cover different liquidity crisis events.

Management of liquidity and funding risks are overseen by ALCO.

Supervision and regulation

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

Scenario modelling

A key component of ANZ New Zealand's liquidity management framework is scenario modelling.

Potential severe name-specific liquidity crisis scenarios which model the behaviour of cash flows where there is a problem (real or perceived) may include, but are not limited to, operational issues, doubts about the solvency of ANZ New Zealand, or adverse rating changes. Under these scenarios ANZ New Zealand may have significant difficulty rolling over or replacing funding. Under the liquidity policy ANZ New Zealand must have sufficient high quality liquid assets to meet its liquidity needs for the following 30 calendar days under these scenarios.

As of 30 September 2017 ANZ New Zealand was in compliance with the above scenarios.

Structural balance sheet metrics

ANZ New Zealand'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 ANZ New Zealand's liquidity position.

Wholesale funding

ANZ New Zealand's wholesale funding strategy is designed to deliver a sustainable portfolio of wholesale funds that balances cost efficiency while targeting diversification by markets, investors, currencies, maturities and funding structures. Short-term wholesale funding requirements, with a contractual maturity of less than one year, are managed through the Treasury and Markets operations. Long-term wholesale funding is managed and executed through Treasury operations.

ANZ New Zealand also uses maturity concentration limits under the wholesale funding and liquidity management framework. Maturity concentration limits ensure that ANZ New Zealand does not become reliant on issuing large volumes of new wholesale funding within a short time period. Funding instruments used to meet the wholesale borrowing requirement must be on a pre-established list of approved products.

Funding capacity and debt issuance planning

ANZ New Zealand 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 ANZ New Zealand's three year strategic planning cycle.

NOTES TO THE FINANCIAL STATEMENTS

Funding composition

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

Analysis of funding liabilities by industry is based on ANZSIC codes. The significant categories shown are the level one New Zealand Standard Industry Output Categories (NZSIOC). The presentation of these tables has changed from previous periods to align this disclosure with the classifications in the data series *S41 – Banks: Liabilities – Deposits by industry* published by the RBNZ.

	Note	30/09/2017 NZ$m	30/09/2016 NZ$m
Funding composition			
Customer deposits	15	96,829	91,360
Wholesale funding			
Unsubordinated debt		21,323	20,014
Subordinated debt		2,674	2,624
Certificates of deposit		1,916	2,237
Commercial paper		3,721	5,364
Other borrowings		6,586	7,947
Total wholesale funding		36,220	38,186
Total funding		133,049	129,546
Customer deposits by industry - New Zealand residents			
Agriculture, forestry and fishing		3,487	3,334
Manufacturing		2,024	1,978
Construction		1,851	1,598
Wholesale trade		1,433	1,284
Retail trade and accommodation		1,516	1,328
Financial and insurance services		8,996	8,918
Rental, hiring and real estate services		2,596	2,321
Professional, scientific, technical, administrative and support services		5,034	4,958
Public administration and safety		1,261	1,258
Arts, recreation and other services		1,928	1,833
Households		53,222	49,492
All other New Zealand residents[1]		3,483	3,040
		86,831	81,342
Customer deposits by industry - overseas			
Households		9,461	8,948
All other non-NZ residents		537	1,070
		9,998	10,018
Total customer deposits		96,829	91,360
Wholesale funding (financial and insurance services industry)			
New Zealand		7,120	7,110
Overseas		29,100	31,076
Total wholesale funding		36,220	38,186
Total funding		133,049	129,546
Concentrations of funding by geography			
New Zealand		93,951	88,452
Australia		7,649	10,163
United States		13,471	12,215
Europe		10,692	11,448
Other countries		7,286	7,268
Total funding		133,049	129,546

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

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Liquidity portfolio management

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

Total liquidity portfolio

	30/09/2017 NZ$m	30/09/2016 NZ$m
Cash and balances with central banks	2,102	2,068
Certificates of deposit	59	1,124
Government, local body stock and bonds	6,609	6,117
Government treasury bills	775	811
Reserve Bank bills	-	100
Other bonds	6,390	6,483
Total liquidity portfolio	15,935	16,703

Assets held for managing liquidity risk include short term cash held with the RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated NZ domestic corporates. These assets would be accepted as collateral by the RBNZ in repurchase transactions. At 30 September 2017 ANZ New Zealand would be eligible to enter into repurchase transactions with a value of NZ$13,832 million. The Banking Group also held unencumbered internal residential mortgage backed securities (RMBS) which would entitle ANZ New Zealand to enter into repurchase transactions with a value of NZ$7,297 million at 30 September 2017.

Liquidity crisis contingency planning

ANZ New Zealand maintains liquidity crisis contingency plans defining an approach for analysing and responding to a liquidity-threatening event on a group wide basis. The framework includes:

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

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Contractual maturity analysis of financial assets and liabilities

The following tables present ANZ New Zealand's financial assets and liabilities within relevant contractual maturity groupings, based on the earliest date on which the NZ Branch or ANZ New Zealand may be required to realise an asset or settle a liability. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows, except for derivatives held for trading where the full mark-to-market amount has been included in the less than three months category. As a result, the amounts in the tables below may differ to the amounts reported on the balance sheet.

The contractual maturity analysis for off-balance sheet commitments and contingent liabilities has been prepared using the earliest date at which ANZ New Zealand or the NZ Branch can be called upon to pay. The liquidity risk of credit related commitments and contingent liabilities may be less than the contract amount, and does not necessarily represent future cash requirements as many of these facilities are expected to be only partially used or to expire unused.

ANZ New Zealand does not manage its liquidity risk on this basis.

30/09/2017	Total NZ$m	At call NZ$m	Up to 3 months NZ$m	Over 3 to 12 months NZ$m	Over 1 to 5 years NZ$m	Over 5 years NZ$m	No maturity specified NZ$m
Financial assets							
Cash	2,338	1,974	364	-	-	-	-
Settlement balances receivable	536	185	351	-	-	-	-
Collateral paid	1,415	-	1,415	-	-	-	-
Trading securities	8,226	-	366	804	6,323	733	-
Derivative financial assets (trading)	8,566	-	8,566	-	-	-	-
Available-for-sale assets	6,746	-	545	1,013	4,452	735	1
Net loans and advances[1]	165,713	146	16,283	17,729	56,476	75,079	-
Other financial assets[1]	333	-	287	43	3	-	-
Total financial assets	193,873	2,305	28,177	19,589	67,254	76,547	1
Financial liabilities							
Settlement balances payable	1,697	1,165	532	-	-	-	-
Collateral received	613	-	613	-	-	-	-
Deposits and other borrowings[1]	118,957	58,287	25,318	27,148	7,078	1,126	-
Derivative financial liabilities (trading)	7,999	-	7,999	-	-	-	-
Unsubordinated debt [2]	22,783	-	1,593	2,072	15,827	3,291	-
Subordinated debt[2]	3,105	-	15	1,175	669	1,246	-
Other financial liabilities[1]	394	-	188	6	56	144	-
Total financial liabilities	155,548	59,452	36,258	30,401	23,630	5,807	-
Derivative financial instruments used for balance sheet management							
- gross inflows	19,605	-	2,557	3,286	10,669	3,093	-
- gross outflows	(19,652)	-	(2,739)	(3,417)	(10,711)	(2,785)	-
Net financial assets / (liabilities) after balance sheet management	38,278	(57,147)	(8,263)	(10,943)	43,582	71,048	1

Contractual maturity of off-balance sheet commitments and contingent liabilities

	Total NZ$m	Less than 1 year NZ$m	Beyond 1 year NZ$m
Non-credit related commitments	488	88	400
Credit related commitments	26,520	26,520	-
Contingent liabilities	2,608	2,608	-
Total	29,616	29,216	400

1 Includes UDC items classified as held for sale.
2 Any callable wholesale debt instruments have been included at their next call date. Refer to note 17 for subordinated debt call dates.

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30/09/2016	Total NZ$m	At call NZ$m	Up to 3 months NZ$m	Over 3 to 12 months NZ$m	Over 1 to 5 years NZ$m	Over 5 years NZ$m	No maturity specified NZ$m
Financial assets							
Cash	2,274	2,045	229	-	-	-	-
Settlement balances receivable	396	58	338	-	-	-	-
Collateral paid	2,310	-	2,310	-	-	-	-
Trading securities	12,804	-	171	1,136	10,859	638	-
Derivative financial assets (trading)	19,396	-	19,396	-	-	-	-
Available-for-sale assets	2,923	-	1,670	283	969	-	1
Net loans and advances	156,693	246	15,532	18,045	52,361	70,509	-
Other financial assets	281	-	228	41	12	-	-
Total financial assets	197,077	2,349	39,874	19,505	64,201	71,147	1
Financial liabilities							
Settlement balances payable	1,523	1,111	412	-	-	-	-
Collateral received	529	-	529	-	-	-	-
Deposits and other borrowings	108,532	50,413	21,343	28,341	7,540	895	-
Derivative financial liabilities (trading)	19,328	-	19,328	-	-	-	-
Unsubordinated debt[1]	20,983	-	2,363	1,882	13,466	3,272	-
Subordinated debt[1]	2,733	-	14	43	1,659	1,017	-
Other financial liabilities	303	-	72	7	93	131	-
Total financial liabilities	153,931	51,524	44,061	30,273	22,758	5,315	-
Derivative financial instruments used for balance sheet management							
- gross inflows	21,743	-	3,461	3,203	11,207	3,872	-
- gross outflows	(22,590)	-	(4,042)	(3,398)	(11,460)	(3,690)	-
Net financial assets / (liabilities) after balance sheet management	42,299	(49,175)	(4,768)	(10,963)	41,190	66,014	1

Contractual maturity of off-balance sheet commitments and contingent liabilities

	Total NZ$m	Less than 1 year NZ$m	Beyond 1 year NZ$m
Non-credit related commitments	460	92	368
Credit related commitments	27,046	27,046	-
Contingent liabilities	2,461	2,461	-
Total	29,967	29,599	368

1 Any callable wholesale debt instruments have been included at their next call date.

NOTES TO THE FINANCIAL STATEMENTS

19. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

	At amortised cost	At fair value through profit or loss		Hedging	Available-for-sale assets	Total carrying amount	Fair value
		Designated on initial recognition	Held for trading				
30/09/2017	**NZ$m**	**NZ$m**	**NZ$m**	**NZ$m**	**NZ$m**	**NZ$m**	**NZ$m**
Cash	2,338	-	-	-	-	2,338	2,338
Settlement balances receivable	536	-	-	-	-	536	536
Collateral paid	1,415	-	-	-	-	1,415	1,415
Trading securities	-	-	7,663	-	-	7,663	7,663
Derivative financial instruments[1]	-	-	9,361	388	-	9,749	9,749
Available-for-sale assets	-	-	-	-	6,360	6,360	6,360
Net loans and advances[2, 3]	124,880	-	-	-	-	124,880	124,930
Other financial assets	621	123	-	-	-	744	744
Total financial assets	129,790	123	17,024	388	6,360	153,685	153,735
Settlement balances payable	1,687	-	-	-	-	1,687	1,687
Collateral received	613	-	-	-	-	613	613
Deposits and other borrowings[3]	105,331	3,721	-	-	-	109,052	109,285
Derivative financial instruments[1]	-	-	9,043	851	-	9,894	9,894
Unsubordinated debt[2]	21,323	-	-	-	-	21,323	21,517
Subordinated debt	2,674	-	-	-	-	2,674	2,743
Other financial liabilities	617	-	151	-	-	768	768
Total financial liabilities	132,245	3,721	9,194	851	-	146,011	146,507
30/09/2016							
Cash	2,274	-	-	-	-	2,274	2,274
Settlement balances receivable	396	-	-	-	-	396	396
Collateral paid	2,310	-	-	-	-	2,310	2,310
Trading securities	-	-	11,979	-	-	11,979	11,979
Derivative financial instruments[1]	-	-	20,205	764	-	20,969	20,969
Available-for-sale assets	-	-	-	-	2,859	2,859	2,859
Net loans and advances[2]	120,651	-	-	-	-	120,651	120,931
Other financial assets	559	119	-	-	-	678	678
Total financial assets	126,190	119	32,184	764	2,859	162,116	162,396
Settlement balances payable	1,554	-	-	-	-	1,554	1,554
Collateral received	529	-	-	-	-	529	529
Deposits and other borrowings	101,544	5,364	-	-	-	106,908	107,106
Derivative financial instruments[1]	-	-	21,578	820	-	22,398	22,398
Unsubordinated debt[2]	20,014	-	-	-	-	20,014	20,148
Subordinated debt	2,624	-	-	-	-	2,624	2,636
Other financial liabilities	497	-	157	-	-	654	654
Total financial liabilities	126,762	5,364	21,735	820	-	154,681	155,025

1 Derivative financial instruments classified as held for trading include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to certain financial assets within loans and advances and certain financial liabilities within unsubordinated debt. The resulting fair value adjustment means that the carrying value differs from the amortised cost.
3 Includes UDC items classified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

Measurement of fair value

Valuation methodologies

ANZ New Zealand has an established control framework that ensures fair value is either determined or validated by a function independent of the party that undertakes the transaction. The control framework ensures that all models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data.

Where quoted market prices are used, prices are independently verified from other sources. For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of valuation models, any inputs to those models, any adjustments required outside of the valuation model and, where possible, independent validation of model outputs. In this way, continued appropriateness of the valuations is ensured.

In instances where ANZ New Zealand holds offsetting risk positions, ANZ New Zealand uses the portfolio exemption in NZ IFRS 13 *Fair Value Measurement* to measure the fair value of such groups of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (that is, an asset) for a particular risk exposure or to transfer a net short position (that is, a liability) for a particular risk exposure.

ANZ New Zealand categorises its fair value measurements on the basis of inputs used in measuring fair value using the fair value hierarchy below:

- Level 1 – Financial instruments that have been valued by reference to unadjusted quoted prices in active markets for identical financial instruments. This category includes financial instruments valued using quoted yields where available for specific debt securities.
- Level 2 – Financial instruments that have been valued through valuation techniques incorporating inputs other than quoted prices within Level 1 that are observable for a similar financial asset or liability, either directly or indirectly.
- Level 3 – Financial instruments that have been valued using valuation techniques which incorporate significant inputs that are not based on observable market data (unobservable inputs).

Valuation techniques and inputs used

In the event that there is no quoted market price for the instrument, fair value is based on valuation techniques. The valuation models incorporate the impact of bid/ask spreads, counterparty credit spreads, funding costs and other factors that would influence the fair value determined by market participants.

The majority of valuation techniques employ only observable market data. However, for certain financial instruments the valuation technique may employ some data (valuation inputs or components) which is not readily observable in the current market. In these cases valuation inputs (or components of the overall value) are derived and extrapolated from other relevant market data and tested against historic transactions and observed market trends. To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependent on the significance of the unobservable input to the overall valuation.

The following valuation techniques have been applied to determine the fair values of financial instruments where there is no quoted price (level1) for the instrument:

- For instruments classified as trading securities and securities short sold, derivative financial assets and liabilities, available-for-sale assets, and investments backing insurance contract liabilities, fair value measurements are derived by using modelled valuations techniques (including discounted cash flow models) that incorporate market prices / yields for securities with similar credit risk, maturity and yield characteristics; and/or current market yields for similar instruments.
- For net loans and advances, deposits and other borrowings and unsubordinated debt, discounted cash flow techniques are used where contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates or market borrowing rates of debt with similar maturities or a yield curve appropriate for the remaining term to maturity.

There have been no substantial changes in the valuation techniques applied to different classes of financial instruments during the year.

NOTES TO THE FINANCIAL STATEMENTS

Valuation hierarchy for financial assets and financial liabilities measured at fair value in the balance sheet

	30/09/2017				30/09/2016			
	Level 1 NZ$m	Level 2 NZ$m	Level 3 NZ$m	Total NZ$m	Level 1 NZ$m	Level 2 NZ$m	Level 3 NZ$m	Total NZ$m
Financial assets								
Trading securities	7,276	387	-	7,663	11,967	12	-	11,979
Derivative financial instruments	5	9,741	3	9,749	3	20,959	7	20,969
Available-for-sale assets	5,336	1,023	1	6,360	1,671	1,187	1	2,859
Investments backing insurance contract liabilities	-	123	-	123	5	114	-	119
Total	12,617	11,274	4	23,895	13,646	22,272	8	35,926
Financial liabilities								
Deposits and other borrowings	-	3,721	-	3,721	-	5,364	-	5,364
Derivative financial instruments	24	9,869	1	9,894	46	22,350	2	22,398
Other financial liabilities	151	-	-	151	157	-	-	157
Total	175	13,590	1	13,766	203	27,714	2	27,919

Valuation hierarchy for financial assets and financial liabilities not measured at fair value[1]

	30/09/2017				30/09/2016			
	Level 1 NZ$m	Level 2 NZ$m	Level 3 NZ$m	Total NZ$m	Level 1 NZ$m	Level 2 NZ$m	Level 3 NZ$m	Total NZ$m
Financial assets								
Net loans and advances	-	121,707	3,223	124,930	-	117,553	3,378	120,931
Financial liabilities								
Deposits and other borrowings	-	105,564	-	105,564	-	101,742	-	101,742
Unsubordinated debt	1,487	20,030	-	21,517	1,629	18,519	-	20,148
Subordinated debt	2,440	303	-	2,743	2,344	292	-	2,636
Total	3,927	125,897	-	129,824	3,973	120,553	-	124,526

1 Fair values, where the carrying amount is not considered a close approximation of fair value.

20. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following is an analysis of asset and liability line items in the balance sheet that combine amounts expected to be realised or due to be settled within one year and after more than one year.

	30/09/2017			30/09/2016		
	within one year NZ$m	after more than one year NZ$m	Total NZ$m	within one year NZ$m	after more than one year NZ$m	Total NZ$m
Assets						
Investments backing insurance contract liabilities	120	3	123	107	12	119
Available-for-sale assets	1,400	4,960	6,360	1,915	944	2,859
Net loans and advances[1]	29,341	95,539	124,880	25,112	95,539	120,651
Other assets[1]	665	38	703	598	103	701
Life insurance contract assets	45	591	636	42	588	630
Liabilities						
Deposits and other borrowings[1]	102,252	6,800	109,052	99,850	7,058	106,908
Payables and other liabilities[1]	1,007	187	1,194	902	235	1,137
Employee entitlements[1]	34	86	120	29	97	126
Other provisions	66	-	66	79	1	80
Unsubordinated debt	3,169	18,154	21,323	4,009	16,005	20,014
Subordinated debt[2]	1,133	1,541	2,674	-	2,624	2,624

1 Includes UDC items classified as held for sale.
2 Any callable wholesale debt instruments have been included at their next call date.

NOTES TO THE FINANCIAL STATEMENTS

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

Assets charged as security for liabilities[1]

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

	Carrying Amount		Related Liability	
	30/09/2017 NZ$m	30/09/2016 NZ$m	30/09/2017 NZ$m	30/09/2016 NZ$m
Securities sold under agreements to repurchase	157	77	157	76
Residential mortgages pledged as security for covered bonds	10,595	10,265	5,325	6,218
Assets pledged as collateral for UDC secured investments	2,985	2,665	1,039	1,592

UDC Secured Investments are secured by a security interest granted under a trust deed over all of UDC's present and future assets and undertakings, to Trustees Executors Limited, as supervisor. The assets subject to the security interest comprise mainly loans to UDC's customers and certain plant and equipment. The security interest secures all amounts payable by UDC on the UDC Secured Investments and all other monies payable by UDC under the trust deed.

Collateral accepted as security for assets[1]

ANZ New Zealand has received collateral in relation to reverse repurchase agreements. These transactions are governed by standard industry agreements.

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

	30/09/2017 NZ$m	30/09/2016 NZ$m
Collateral received on standard reverse repurchase agreements		
Fair value of assets which can be sold	361	231
Fair value of assets sold or repledged	218	141

[1] Excludes the amounts disclosed as collateral paid and received in the balance sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of the collateral agreements are included in the standard CSA that forms part of the ISDA.

NOTES TO THE FINANCIAL STATEMENTS

22. OFFSETTING

The following information relates to financial assets and liabilities which have not been set off in the balance sheet but for which ANZ New Zealand has enforceable master netting agreements in place with counterparties. No financial assets and liabilities have been set off in the balance sheet.

	Gross amounts presented in the balance sheet	Related amounts not offset [1]		
		Financial instruments	Cash collateral	Net amounts
30/09/2017	**NZ$m**	**NZ$m**	**NZ$m**	**NZ$m**
Financial assets				
Collateral paid	409	-	(348)	61
Trading securities [2]	157	(157)	-	-
Derivative financial instruments	7,809	(7,411)	(245)	153
Financial liabilities				
Collateral received	318	-	(245)	73
Securities sold under agreements to repurchase [3]	157	(157)	-	-
Derivative financial instruments	8,380	(7,411)	(348)	621
30/09/2016				
Financial assets				
Collateral paid	1,405	-	(1,332)	73
Trading securities [2]	77	(76)	-	1
Derivative financial instruments	7,442	(7,086)	(333)	23
Financial liabilities				
Collateral received	358	-	(333)	25
Securities sold under agreements to repurchase [3]	76	(76)	-	-
Derivative financial instruments	8,718	(7,086)	(1,332)	300

[1] ANZ New Zealand enters into derivatives and repurchase and reverse repurchase agreements with various counterparties which are governed by industry standard master netting agreements. ANZ New Zealand holds and provides cash and securities collateral in respective of derivative transactions covered by these agreements. The right to set off balances under these master netting agreements or to set off cash and securities collateral only arises in the event of non-payment or default and, as a result, these arrangements do not qualify for offsetting under NZ IAS 32 *Financial Instruments: Presentation*.

[2] This is the amount of trading securities encumbered through repurchase agreements, see financial assets pledged as collateral table in note 21.

[3] Included in deposits and other borrowings, see note 15.

NOTES TO THE FINANCIAL STATEMENTS

23. CREDIT RELATED COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

	30/09/2017 NZ$m	30/09/2016 NZ$m
Contract amount of:		
Credit related commitments - facilities provided		
Undrawn facilities	26,520	27,046
Guarantees and contingent liabilities		
Guarantees and letters of credit	1,010	850
Performance related contingencies	1,598	1,611
Total guarantees and contingent liabilities	2,608	2,461
Total Credit Related Commitments, Guarantees and Contingent Liabilities	29,128	29,507

These guarantees and contingent liabilities relate to transactions that ANZ New Zealand has entered into as principal, including guarantees, standby letters of credit and documentary letters of credit.

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

Performance related contingencies are liabilities that oblige ANZ New Zealand to make payments to a third party should the customer fail to fulfil the non-monetary terms of the contract.

To reflect the risk associated with these transactions, they are subjected to the same credit origination, portfolio management and collateral requirements as customers that apply for loans. The contract amount represents the maximum potential amount that could be lost if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

Other contingent liabilities

ANZ New Zealand has other contingent liabilities in respect of actual and possible claims and court proceedings. An assessment of ANZ New Zealand's likely loss in respect of these matters has been made on a case-by-case basis and provision made where deemed necessary.

24. GOODWILL AND OTHER INTANGIBLE ASSETS

	Note	30/09/2017 NZ$m	30/09/2016 NZ$m
Goodwill		3,230	3,233
Software		67	76
Other intangibles		111	115
Goodwill and other intangible assets (including assets classified as held for sale)		3,408	3,424
Less: goodwill allocated to UDC and held for sale	29	(133)	-
Goodwill and other intangible assets		3,275	3,424

NOTES TO THE FINANCIAL STATEMENTS

25. SHARE CAPITAL AND INITIAL HEAD OFFICE ACCOUNT

	Number of issued shares		NZ$ millions	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
Ordinary shares at beginning of the year	378,155,112	381,655,112	1,450	1,453
Shares cancelled on amalgamation [1]	-	(3,500,000)	-	(3)
Ordinary shares at end of the year	378,155,112	378,155,112	1,450	1,450
Redeemable preference shares	5,504,884,529	5,504,884,529	6,594	6,594
Total share capital	5,883,039,641	5,883,039,641	8,044	8,044
NZ Branch initial head office account	-	-	11	11
Total share capital & initial head office account	5,883,039,641	5,883,039,641	8,055	8,055

[1] The issued share capital of ANZ Securities (NZ) Limited was not issued to a member of ANZ New Zealand and was cancelled on amalgamation with South Pacific Merchant Finance Limited, a subsidiary of the Bank, on 30 September 2016.

Ordinary shares

All ordinary shares share equally in dividends and any proceeds available to ordinary shareholders on winding up. On a show of hands every member who is present at a meeting in person or by proxy or by representative is entitled to one vote, and upon a poll every member shall have one vote for each share held.

During the year ended 30 September 2017 ANZ Holdings (New Zealand) Limited (ANZH) paid ordinary dividends of NZ$1,635 million (2016: NZ$1,320 million) to the Immediate Parent Company (equivalent to NZ$4.32 (2016: NZ$3.49) per share).

Redeemable preference shares

All redeemable preference shares (RPS) were issued by ANZH to the Immediate Parent Company. RPS carry no voting rights and are redeemable by ANZH providing notice in writing to holders of the RPS. Dividends are payable at the discretion of the directors of ANZH and are non-cumulative.

There are seven classes of RPS, relating to issues in 1988, 2005, 2007, 2008, 2009, 2014 and 2015. ANZH did not pay any dividends on RPS during the years ended 30 September 2017 and 30 September 2016.

In the event of liquidation, holders of RPS are entitled to available subscribed capital per share, pari passu with all holders of existing RPS but in priority to all holders of ordinary shares. They have no entitlement to participate in further distribution of profits or assets.

Head office account

The NZ Branch capital comprises the initial head office account only. The head office account is the funds provided by the Ultimate Parent Bank on the creation of the NZ Branch. It is non-interest bearing and there is no fixed date of repayment.

NOTES TO THE FINANCIAL STATEMENTS

26. CAPITAL ADEQUACY

Capital management policies

ANZ New Zealand's core capital objectives are to:

- Protect the interests of depositors, creditors and shareholders
- Ensure the safety and soundness of ANZ New Zealand's capital position
- Ensure that the capital base supports ANZ New Zealand's risk appetite, and strategic business objectives, in an efficient and effective manner.

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

ANZ New Zealand 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 ANZ New Zealand's overall risk profile and financial positions, taking into account its strategic focus and business plan
- Support the economic risk capital requirements of the business.

ANZ New Zealand's Asset & Liability Committee and its related Capital Management Forum are responsible for developing, implementing and maintaining ANZ New Zealand's ICAAP framework, including ongoing monitoring, reporting and compliance. ANZ New Zealand's ICAAP is subject to independent and periodic review conducted by Internal Audit.

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

APRA Basel III capital ratios

	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
Unaudited				
Common equity tier 1 capital	10.6%	9.6%	10.5%	9.7%
Tier 1 capital	12.6%	11.8%	12.7%	12.1%
Total capital	14.8%	14.3%	14.8%	14.7%

For calculation of minimum capital requirements under Pillar 1 (Capital Requirements) of the Basel Accord, APRA has accredited the Overseas Banking Group to use the Advanced Internal Ratings Based (AIRB) methodology for calculation of credit risk weighted assets and the Advanced Measurement Approach (AMA) for the operational risk weighted asset equivalent.

Under prudential regulations, the Overseas Banking Group is required to maintain a Prudential Capital Ratio (PCR) as determined by APRA. The Overseas Banking Group exceeded the PCR set by APRA as at 30 September 2017 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2017. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 30 September 2017, in accordance with APS 330: *Public Disclosure of Prudential Information*, discloses capital adequacy ratios and other prudential information. This document can be accessed at the website anz.com.

Market risk

ANZ New Zealand's aggregate market risk exposures below have been calculated in accordance with the RBNZ document BS2B. The peak end-of-day market risk exposures are for the six months ended 30 September 2017.

	Implied risk weighted exposure		Notional capital charge		Peak
	Period end	Peak	Period end	Peak	occurred on
Unaudited 30/09/2017	NZ$m	NZ$m	NZ$m	NZ$m	
Interest rate risk	4,413	7,241	353	579	6/06/2017
Foreign currency risk	46	152	4	12	20/06/2017
Equity risk	1	1	-	-	30/09/2017
	4,460		357		

NOTES TO THE FINANCIAL STATEMENTS

Residential mortgages by loan-to-valuation ratio (LVR)

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

	30/09/2017		
Unaudited	**On-balance sheet NZ$m**	**Off-balance sheet NZ$m**	**Total NZ$m**
LVR range			
Does not exceed 60%	35,235	5,227	40,462
Exceeds 60% and not 70%	16,928	1,346	18,274
Exceeds 70% and not 80%	17,715	1,168	18,883
Does not exceed 80%	69,878	7,741	77,619
Exceeds 80% and not 90%	2,985	137	3,122
Exceeds 90%	1,536	188	1,724
Total	74,399	8,066	82,465

Reconciliation of mortgage related amounts

Unaudited	**Note**	**30/09/2017 NZ$m**
Term loans - housing	13	76,870
Less: fair value hedging adjustment		(49)
Less: housing loans made to corporate customers		(2,422)
On-balance sheet retail mortgage exposures	18	74,399
Add: off-balance sheet retail mortgage exposures		8,066
Total retail mortgage exposures as per LVR analysis		82,465

27. SUBSIDIARIES

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

Principal subsidiaries	**Nature of business**
Members of the Banking Group	
ANZ Bank New Zealand Limited	Registered bank
ANZ Investment Services (New Zealand) Limited	Funds management
ANZ New Zealand (Int'l) Limited	Finance
ANZ New Zealand Investments Limited	Funds management
ANZ New Zealand Securities Limited	On-line share broker
ANZNZ Covered Bond Trust[1]	Securitisation entity
Arawata Assets Limited	Property
Karapiro Investments Limited	Asset finance
Kingfisher NZ Trust 2008-1[1]	Securitisation entity
OnePath Life (NZ) Limited	Insurance
UDC Finance Limited	Asset finance
Other operating members of ANZ New Zealand (together with the NZ Branch, the "Relevant Members")	
ANZ Capel Court Limited (New Zealand Branch)[2]	Securitisation services
ANZ Holdings (New Zealand) Limited	Holding company

1 ANZ New Zealand does not own ANZNZ Covered Bond Trust and Kingfisher NZ Trust 2008-1. Control exists as ANZ New Zealand retains substantially all the risks and rewards of the operations. Details of ANZ New Zealand's interest in consolidated structured entities is included in note 28.
2 Incorporated in Australia and registered in New Zealand as an Overseas ASIC Company.

NOTES TO THE FINANCIAL STATEMENTS

28. STRUCTURED ENTITIES, TRANSFERRED FINANCIAL ASSETS, FIDUCIARY ACTIVITIES AND INSURANCE

Structured entities

ANZ New Zealand's involvement with structured entities is mainly through securitisations and its funds management activities, which are outlined further below. ANZ New Zealand has involvement with structured entities that may be established either by ANZ New Zealand or by a third party.

Consolidated structured entities

Kingfisher NZ Trust 2008-1 (the Kingfisher Trust)

ANZ New Zealand has established the Kingfisher Trust as an in-house residential mortgage backed securities facility that can issue securities meeting the RBNZ criteria to use as collateral in repurchase transactions with the RBNZ.

These assets do not qualify for derecognition as the Bank retains substantially all of the risks and rewards of the transferred assets.

As at 30 September 2017 and 30 September 2016 ANZ New Zealand had not entered into any repurchase agreements with the RBNZ for residential mortgage backed securities and therefore no collateral had been accepted by the RBNZ under this facility.

ANZNZ Covered Bond Trust (the Covered Bond Trust)

Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied.

ANZ New Zealand continues to recognise the assets of the Covered Bond Trust on its balance sheet as, although they are pledged as security for covered bonds, the Bank retains substantially all the risks and rewards of ownership.

Unconsolidated securitisations

ANZ New Zealand also has an interest in unconsolidated securitisation entities through the provision of funding facilities or holding bonds or notes issued by such entities. ANZ New Zealand's exposure to these entities is not material.

Transferred financial assets

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

Assets transferred to the Kingfisher Trust and the Covered Bond Trust

The Bank has purchased securities issued by both the Kingfisher Trust and the Covered Bond Trust in exchange for the transfer of the rights to the cash flows associated with the identified residential mortgages. As at 30 September 2017, NZ$20,551 million of assets were held in the Kingfisher Trust and the Covered Bond Trust (2016: NZ$19,656 million).

Repurchase transactions

Securities sold subject to repurchase agreements are not derecognised when substantially all the risks and rewards of ownership remain with the Bank. See note 21 for details of securities sold under agreements to repurchase. The amount of trading securities encumbered through repurchase agreements is shown in note 22. The carrying amount of the associated liabilities is not materially different to the amount of trading securities subject to the repurchase agreement.

NOTES TO THE FINANCIAL STATEMENTS

Funds management and other fiduciary activities

Funds management

Certain entities that form part of ANZ New Zealand act as trustee and/or manager for a number of unit trusts and investment and superannuation funds. ANZ New Zealand provides private banking services to a number of clients, including investment advice and portfolio management. ANZ New Zealand is not responsible for any decline in performance of the underlying assets of the investors due to market forces.

As funds under management are not controlled by ANZ New Zealand, they are not included in these financial statements. ANZ New Zealand derives fee and commission income from the sale and management of investment funds and superannuation schemes, unit trusts and the provision of private banking services to customers. ANZ New Zealand derives commission income from the sale of third party funds management products.

Some funds under management are invested in products owned or securities issued by ANZ New Zealand and are recorded as liabilities in the balance sheet. At 30 September 2017, NZ$3,964 million of funds under management were invested in ANZ New Zealand's own products or securities (2016: NZ$3,698 million).

Custodial services

ANZ New Zealand provides custodial services to customers in respect of assets that are beneficially owned by those customers.

	30/09/2017 NZ$m	30/09/2016 NZ$m
Kiwisaver	11,047	9,295
Bonus Bonds Scheme	3,405	3,561
Other managed funds	1,984	1,924
ANZ PIE Fund[1]	1,381	953
Discretionary Investment Management Service (DIMS)[2]	7,193	7,007
Other investment portfolios[2]	3,480	3,745
Total funds under management	28,490	26,485
Funds under custodial arrangements	7,720	7,408
Other funds held or managed subject to fiduciary responsibilities	1,557	1,927
Funds management fee income from structured entities	170	156

1 ANZ New Zealand established, and is considered to be the sponsor of, the ANZ PIE Fund. The ANZ PIE Fund invests only in deposits with the Bank. ANZ New Zealand does not receive a management fee from, and does not have an interest in, the ANZ PIE Fund.
2 These funds are not structured entities as they are investment portfolios managed on behalf of customers.

Insurance business

ANZ New Zealand conducts insurance business through its subsidiary OnePath Life (NZ) Limited (OnePath Life).

ANZ New Zealand’s aggregate amount of insurance business comprises the total consolidated assets of OnePath Life of NZ$921 million (2016: NZ$926 million), which is 0.6% (2016: 0.6%) of the total consolidated assets of ANZ New Zealand.

Risk management

The Bank and entities that form part of ANZ New Zealand participating in the activities identified above have in place policies and procedures to ensure that those activities are conducted in an appropriate manner. Should adverse conditions arise, it is considered that these policies and procedures will minimise the possibility that these conditions will adversely impact the Bank or ANZ New Zealand. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management.

NOTES TO THE FINANCIAL STATEMENTS

29. ASSETS AND LIABILITIES HELD FOR SALE

On 11 January 2017, the Bank announced that it had entered into a conditional agreement to sell UDC to HNA Group. The sale is subject to certain conditions (including regulatory approvals) and ANZ New Zealand is working with HNA Group towards completion of the sale.

The assets and liabilities of UDC are classified as held for sale as at 30 September 2017. The following assets and liabilities of UDC held for sale are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets and financial assets which are specifically exempt from this requirement.

	30/09/2017 NZ$m
Net loans and advances	2,912
Goodwill	133
Other assets	20
Total UDC assets held for sale	3,065
Deposits and other borrowings	1,039
Payables and other liabilities	33
Current tax liabilities	24
Deferred tax liabilities	(9)
Employee entitlements	1
Total UDC liabilities held for sale	1,088

NOTES TO THE FINANCIAL STATEMENTS

30. RELATED PARTY DISCLOSURES

Key management personnel

Key management personnel (KMP) are defined as directors and those executives who report directly to the Bank's Chief Executive Officer with responsibility for the strategic direction and management of a major revenue generating division or who control material revenue and expenses.

Loans made to directors and other KMP are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate.

All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services. All such transactions that have occurred with KMP and their related parties have been trivial or domestic in nature. In this context, transactions are only disclosed when they are considered of interest to the users of the financial statements in making and evaluating decisions about the allocation of scarce resources.

	Year to 30/09/2017 NZ$000	Year to 30/09/2016 NZ$000
Key management personnel compensation		
Salaries and short-term employee benefits	11,430	11,382
Post-employment benefits	480	280
Other long-term benefits	60	88
Share-based payments expense	3,515	4,123
Total compensation of key management personnel	15,485	15,873
Loans to, and securities held by, key management personnel and their related parties		
Loans	15,326	16,652
Unsubordinated debt	520	520
Subordinated debt	195	195

Transactions with other related parties

The NZ Branch and ANZ New Zealand 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 ANZ New Zealand employees. Transactions with related parties outside of ANZ New Zealand are conducted on an arm's length basis and on normal commercial terms.

In addition the Bank undertakes similar transactions with subsidiaries, which are eliminated in the consolidated ANZ New Zealand financial statements. Included within the Bank's transactions with subsidiaries is the provision of administrative functions to some subsidiaries for which no payments have been made.

Transactions with related parties

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m
Ultimate Parent Bank and subsidiaries not part of ANZ New Zealand		
Interest income	2	6
Interest expense	225	279
Other operating income	23	19
Operating expenses	46	64
Immediate Parent Company		
Interest expense	49	57
Associates		
Direct fee expense	10	10
Dividends received	5	2
Share of associates' profit	5	5

NOTES TO THE FINANCIAL STATEMENTS

Balances with related parties

	30/09/2017 NZ$m	30/09/2016 NZ$m
Ultimate Parent Bank and subsidiaries not part of ANZ New Zealand		
Cash	64	47
Settlement balances receivable	111	31
Collateral paid	-	375
Derivative financial instruments	2,498	4,335
Other assets	42	108
Associates		
Investments in associates	7	7
Total due from related parties	2,722	4,903

	30/09/2017 NZ$m	30/09/2016 NZ$m
Ultimate Parent Bank and subsidiaries not part of ANZ New Zealand		
Settlement balances payable	67	106
Collateral received	198	-
Deposits and other borrowings	4,663	6,105
Derivative financial instruments	2,553	5,302
Payables and other liabilities	36	42
Subordinated debt	299	288
Immediate Parent Company		
Deposits and other borrowings	1,766	1,766
Payables and other liabilities	4	4
Associates		
Payables and other liabilities	1	1
Total due to related parties	9,587	13,614

Balances due from / to related parties are unsecured. The Bank has provided guarantees and commitments to related parties as follows:

	30/09/2017 NZ$m	30/09/2016 NZ$m
Financial guarantees provided to the Ultimate Parent Bank	155	152

NOTES TO THE FINANCIAL STATEMENTS

31. CAPITAL EXPENDITURE AND OPERATING LEASE COMMITMENTS

	30/09/2017 NZ$m	30/09/2016 NZ$m
Contracts for outstanding capital expenditure		
Not later than 1 year	4	5
Future minimum lease payments under non-cancellable operating leases		
Not later than 1 year	84	87
Later than 1 year but not later than 5 years	256	217
Later than 5 years	144	151
Total operating lease commitments	484	455
Total commitments	488	460

32. COMPENSATION OF AUDITORS

	Year to 30/09/2017 NZ$000	Year to 30/09/2016 NZ$000
Compensation of auditors (KPMG New Zealand)		
Audit or review of financial statements[1]	2,309	2,301
Other services:		
Prudential and regulatory services[2]	225	262
Offer documents assurance or review	146	100
Other assurance services[3]	95	52
Total other services	466	414
Total compensation of auditors relating to ANZ New Zealand	2,775	2,715
Fees relating to certain managed funds and not recharged[4]	46	48
Total compensation of auditors	2,821	2,763

1 Includes fees for both the audit of the annual financial statements and reviews of interim financial statements.
2 Includes fees for reviews and controls reports required by regulations.
3 Includes fees for controls reports, comfort letters and other agreed upon procedures engagements.
4 Amounts relate to the ANZ PIE Fund and certain other funds, and include fees for audits of annual financial statements and audits of summary financial statements for inclusion in offer documents, comfort letters and other agreed upon procedures engagements.

It is ANZ New Zealand's policy that, subject to the approval of the Ultimate Parent Bank's Audit Committee, KPMG can provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor. KPMG may not provide services that are perceived to be in conflict with the role of auditor. Services that are perceived to be in conflict with the role of auditor include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on its own work.

33. CONCENTRATIONS OF CREDIT RISK TO INDIVIDUAL COUNTERPARTIES

ANZ New Zealand measures its concentration of credit risk using actual exposures for bank counterparties and limits for non bank counterparties.

For the three months ended 30 September 2017 there were no individual counterparties (excluding connected parties, governments and banks with long term credit ratings of A- or above) where ANZ New Zealand's period end or peak end-of-day credit exposure equalled or exceeded 10% of the Overseas Banking Group's equity (as at the end of the period).

This credit exposure information does not include exposures to counterparties if they are booked outside New Zealand.

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT FRAMEWORK

ANZ New Zealand recognises the importance of effective risk management to its business success. Management is committed to achieving strong control and a distinctive risk management capability that enables ANZ New Zealand business units to meet their performance objectives.

ANZ New Zealand approaches risk through managing the various elements of the system as a whole rather than viewing them as independent and unrelated parts. The risk management division (Risk Management) is independent of the business, with clear delegations from the Board of the Ultimate Parent Bank and operates within a comprehensive framework comprising:

- The Boards of the entities making up ANZ New Zealand (the Boards) providing leadership, setting risk appetite/strategy and monitoring progress
- A strong framework for development and maintenance of ANZ New Zealand-wide risk management policies, procedures and systems, overseen by an independent team of risk professionals
- The use of sophisticated risk tools, applications and processes to execute the global risk management strategy as it is deemed to apply to each entity across ANZ New Zealand
- Business unit level accountability, as the “first line of defence”, for the management of risks in alignment with ANZ New Zealand’s strategy
- Independent oversight to ensure business unit level compliance with policies, regulations and laws, and to provide regular risk evaluation and reporting.

ANZ New Zealand manages risk through an approval, delegation and limits structure. Regular reviews of the policies, systems and risk reports, including the effectiveness of the risk management systems, discussions covering ANZ New Zealand’s response to emerging risk issues and trends, and that the requisite culture and practices are in place across ANZ New Zealand, are conducted within ANZ New Zealand and also by the Ultimate Parent Bank. The Boards have responsibility for reviewing all aspects of risk management.

The Boards have ultimate responsibility for overseeing the effective deployment of risk management frameworks, policies and processes within New Zealand. The Bank’s Risk Committee assists the Boards in this function. The role of the Risk Committee is to assist the Boards in the effective discharge of its responsibilities for business, market, credit, operational, compliance, liquidity, product and reputational risk management, and to liaise and consult with the Ultimate Parent Bank Risk Committee as required. Risk Management, via the Chief Risk Officer, coordinates risk management activities directly between Business Unit risk functions and Ultimate Parent Bank Group Risk Management functions.

ANZ New Zealand’s risk management policies are essentially the same as the Ultimate Parent Bank, but are tailored where required to suit the local New Zealand regulatory and business environment.

The Bank’s Audit Committee has responsibility for reviewing for ensuring the integrity of ANZ New Zealand's financial controls, reporting systems and internal audit standards. It meets at least four times a year and reports directly to the Board of the Bank. All members of the Bank’s Audit Committee are non-executive directors.

Financial risk management

Refer to note 18 for detailed disclosures on ANZ New Zealand's financial risk management policies.

Operational Risk

Operational risk is the risk arising from day to day operational activities which may result in direct or indirect loss. These losses may result from failure to comply with policies, procedures, laws and regulations, from fraud or forgery, from a breakdown in the availability or integrity of services, systems and information, or damage to ANZ New Zealand’s reputation.

Examples include failure to comply with policy and legislation, human error, natural disasters, fraud and other malicious acts. Where appropriate, risks are mitigated by insurance.

Risk Management is responsible for establishing ANZ New Zealand’s operational risk framework and associated ANZ New Zealand-wide policies. Business units are responsible for the identification, analysis, assessment and treatment of operational risks on a day-to-day basis.

Business units have primary responsibility for the identification and management of operational risk with executive oversight provided through business unit Risk Forums. The Bank’s Operational Risk Executive Committee (OREC) undertakes the governance function through the bi-monthly monitoring of operational risk performance across ANZ New Zealand. The Boards and Risk Management conduct effective oversight through the approval of operational risk policies and frameworks and monitoring key operational risk metrics.

Compliance

ANZ New Zealand conducts its business in accordance with all relevant compliance requirements. In order to assist ANZ New Zealand identify, manage, monitor and measure its compliance obligations, ANZ New Zealand has a comprehensive compliance framework in place, which addresses both external (regulatory) and internal compliance.

Risk Management, in conjunction with business unit staff ensure ANZ New Zealand operates within a compliance infrastructure and framework that incorporates new and changing business obligations and processes.

The compliance policies and their supporting framework seek to minimise material risks to ANZ New Zealand’s reputation and value that could arise from non-compliance with laws, regulations, industry codes and internal standards and policies. Business units have primary responsibility for the identification and management of compliance. Risk Management provides policy and framework, measurement,

NOTES TO THE FINANCIAL STATEMENTS

monitoring and reporting, as well as leadership in areas such as anti-money laundering procedures and matters of prudential compliance. The Board and the Risk Committee of the Ultimate Parent Bank Board conduct Board and Executive oversight.

Internal Audit

Internal Audit is a function independent of management whose role is to provide the Board and management with an effective and independent appraisal of the internal controls established by management. Operating under a Board approved Charter, the reporting line for the outcomes of work conducted by Internal Audit is direct to the Chair of the Bank's Audit Committee, with a direct communication line to the Chief Executive Officer of the Bank and the external auditor.

The Internal Audit Plan is developed utilising a risk based approach and is refreshed on a quarterly basis. The Bank's 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 Committees of the Ultimate Parent Bank and the Bank as appropriate, Risk Committee and management. These results influence the performance assessment of business heads.

Furthermore, Internal Audit monitors the remediation of audit issues and reports the current status of any outstanding audits.

35. NZ BRANCH AND OVERSEAS BANKING GROUP INFORMATION

NZ Branch Funding	30/09/2017 NZ$m
Total liabilities of the NZ Branch less amounts due to related parties	1,069

Overseas Banking Group Profitability and Size	30/09/2017 AUDm
Profit for the year ended 30/09/2017[1]	6,421
Net profit after tax for the 12 months to 30/09/2017 as a percentage of average total assets	0.70%
Total assets	897,326
Percentage change in total assets in the 12 months to 30/09/2017	-1.92%

1 Net profit after tax for the year includes AUD 15 million of profit attributable to non-controlling interests.

Overseas Banking Group asset quality	30/09/2017 AUDm
Gross impaired assets	2,384
Gross impaired assets as a percentage of total assets	0.3%
Individual provision	1,136
Individual provision as a percentage of gross impaired assets	47.7%
Collective provision	2,662

HISTORICAL SUMMARY OF FINANCIAL STATEMENTS

	Year to 30/09/2017 NZ$m	Year to 30/09/2016 NZ$m	Year to 30/09/2015 NZ$m	Year to 30/09/2014 NZ$m	Year to 30/09/2013 NZ$m
Interest income	6,434	6,770	7,417	6,799	6,461
Interest expense	3,356	3,741	4,537	4,034	3,820
Net interest income	3,078	3,029	2,880	2,765	2,641
Non-interest income	916	832	1,157	1,063	795
Operating income	3,994	3,861	4,037	3,828	3,436
Operating expenses	1,469	1,600	1,513	1,490	1,513
Credit impairment charge / (release)	60	147	76	(9)	66
Profit before income tax	2,465	2,114	2,448	2,347	1,857
Income tax expense	685	572	677	636	488
Profit after income tax	1,780	1,542	1,771	1,711	1,369
Dividends paid	(1,635)	(1,320)	(1,630)	(2,335)	(720)
Share capital issued	-	-	665	969	-

	As at 30/09/2017 NZ$m	As at 30/09/2016 NZ$m	As at 30/09/2015 NZ$m	As at 30/09/2014 NZ$m	As at 30/09/2013 NZ$m
Total impaired assets	361	433	404	668	936
Total assets	158,185	166,706	155,530	138,528	129,853
Total liabilities	146,872	155,539	144,670	128,447	120,111
Equity & head office account	11,313	11,167	10,860	10,081	9,742

The amounts included in this summary have been taken from the audited financial statements of ANZ New Zealand.

GENERAL DISCLOSURES

General Matters

The Disclosure Statement has been issued in accordance with the Order.

The address for service for the Ultimate Parent Bank is ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

Financial Statements of the Ultimate Parent Bank and Overseas Banking Group

Copies of the most recent publicly available financial statements of the Ultimate Parent Bank and Overseas Banking Group will be provided immediately, free of charge, to any person requesting a copy where request is made at the Registered Office. The most recent publicly available financial statements for the Ultimate Parent Bank and Overseas Banking Group can also be accessed at the website anz.com.

Ranking of local creditors in liquidation

Certain creditors of the Ultimate Parent Bank are given a statutory priority under Australian law. Unsecured creditors of the NZ Branch could be expected to rank behind such claims.

Specifically, pursuant to section 13A(3) of the Banking Act of the Commonwealth of Australia (the Banking Act), if an Authorised Deposit-Taking Institution (ADI) (which includes the Ultimate Parent Bank) becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are available to meet the ADI's liabilities in the following order:

(a) first, the ADI's liabilities (if any) to APRA because of the rights APRA has against the ADI because of section 16AI of the Banking Act

(b) second, the ADI's debts (if any) to APRA under section 16AO of the Banking Act

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

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

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

(f) sixth, the ADI's other liabilities in the order of their priority (apart from section 13A(3)).

Unsecured creditors of the NZ Branch could be expected to rank as a creditor pursuant to the sixth paragraph, together with other unsecured creditors of the Ultimate Parent Bank that do not otherwise have a priority claim under preceding paragraphs.

Section 16(1) and (2) of the Banking Act provide that, despite anything contained in any law relating to the winding-up of companies, but subject to section 13A(3) of the Banking Act, the debts of an ADI to APRA in respect of APRA's costs (including costs in the nature of remuneration and expenses) of being in control of the ADI's business, or of having an administrator in control of the ADI's business, are a debt due to APRA and have priority in a winding-up of the ADI over all other unsecured debts.

Section 86 of the Reserve Bank Act 1959 of the Commonwealth of Australia provides that notwithstanding anything contained in any law relating to the winding-up of companies, but subject to section 13A(3) of the Banking Act, debts due to the Reserve Bank of Australia by any ADI shall, in a winding-up, have priority over all other debts.

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

These provisions affect all of the unsecured liabilities of the NZ Branch, which as at 30 September 2017, amounted to NZ$1,069m (2016: NZ$1,146m).

Requirement to hold excess assets over deposit liabilities

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

APRA’s powers

The Ultimate Parent Bank is subject to extensive prudential regulation by APRA.

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

The Banking Act requires APRA to exercise its powers and functions for the protection of the depositors of Australian ADIs and for the promotion of financial system stability in Australia.

GENERAL DISCLOSURES

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

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

Financial Support

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

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

Under APRA's Prudential Standards, the Ultimate Parent Bank's ability to provide financial support to the Bank is subject to certain requirements:

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

In addition, APRA has reviewed the level of financial exposures that can be provided to the respective New Zealand banking subsidiaries and branches (New Zealand operations) of the four Australian parent banks, including the Ultimate Parent Bank.

APRA has confirmed that by 1 January 2021 no more than 5% of the Ultimate Parent Bank's Level 1 Tier 1 capital base can comprise non-equity exposures to its New Zealand operations during ordinary times. Exposures in excess of this limit as at 1 January 2016 must be reduced in equal percentages over the five year transition period and may not increase above the exposures as at 30 June 2015. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to the Bank during times of financial stress.

The Ultimate Parent Bank established a New Zealand branch which was registered on 5 January 2009. The Bank sells, from time-to-time, residential mortgages into the NZ Branch to provide funding for the Bank's business. As at 30 September 2017, the NZ Branch held approximately NZ$4.3 billion of residential mortgages. To satisfy APRA's requirements described above, the Bank intends to repay this funding at approximately NZ$1.6 billion per annum over the transition period ending 31 December 2020.

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

Further, from 1 July 2017, APRA's Level 3 Conglomerates regulations became effective which limit the financial and operational assistance the Ultimate Parent Bank can provide the Bank.

In determining the acceptable level of financial and operational exposure to the Bank, the Board of the Ultimate Parent Bank should have regard to:

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

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

GENERAL DISCLOSURES

Guarantors

No material obligations of the NZ Branch are guaranteed as at 29 November 2017.

ANZNZ Covered Bond Trust

Certain debt securities (Covered Bonds) issued by the Bank's wholly owned subsidiary, ANZ New Zealand (Int'l) Limited, are guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor has guaranteed the payment of interest and principal of Covered Bonds with a carrying value as at 30 September 2017 of NZ$5,325 million, pursuant to a guarantee which is secured over a pool of assets. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations. The Covered Bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Details of the pool of assets that secure this guarantee are provided in note 28.

Credit Rating Information

As at 29 November 2017 the Ultimate Parent Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars. On 19 June 2017, Moody's Investors Service changed the Ultimate Parent Bank's credit rating from Aa2 to Aa3 and changed the outlook from Negative to Stable.

The Ultimate Parent Bank's credit ratings are:

Rating Agency	Current Credit Rating	Qualification
Standard & Poor's	AA-	Outlook Negative
Moody's Investors Service	Aa3	Outlook Stable
Fitch Ratings	AA-	Outlook Stable

The following table describes the credit rating grades available:

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

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

CONDITIONS OF REGISTRATION

Conditions of Registration, applicable as at 30 September 2017. These Conditions of Registration have applied from 1 November 2015.

The registration of Australia and New Zealand Banking Group Limited (the registered bank) in New Zealand is subject to the following conditions:

1. 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.

2. 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 predominately 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.

3. That the business of the registered bank in New Zealand does not constitute a predominant proportion of the total business of the registered bank.

4. That no appointment to the position of the New Zealand chief executive officer of the registered bank shall be made 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.

5. That Australia and New Zealand Banking Group Limited complies with the requirements imposed on it by the Australian Prudential Regulation Authority.

6. That Australia and New Zealand Banking Group Limited complies with the following minimum capital adequacy requirements, as administered by the Australian Prudential Regulation Authority:

   a) Common Equity Tier 1 capital of the Australia and New Zealand Banking Group Limited is not less than 4.5 percent of risk weighted exposures;

   b) Tier 1 capital of the Australia and New Zealand Banking Group Limited is not less than 6 percent of risk weighted exposures;

   c) Total capital of Australia and New Zealand Banking Group Limited is not less than 8 percent of risk weighted exposures.

7. That the business of the registered bank in New Zealand is restricted to:

   a) acquiring for fair value, and holding, mortgages originated by ANZ Bank New Zealand Limited; and

   b) any other business for which the prior written approval of the Reserve Bank of New Zealand has been obtained; and

   c) activities that are necessarily incidental to the business specified in paragraphs (a) and (b).

8. That the value of the mortgages held by the registered bank in New Zealand must not exceed $15 billion in aggregate.

9. That the registered bank in New Zealand does not incur any liabilities except:

   a) to the government of New Zealand in respect of taxation and other charges;

   b) to other branches or the head office of the registered bank;

   c) to trade creditors and staff;

   d) to ANZ Bank New Zealand Bank Limited in respect of activities, other than borrowing, that are necessarily incidental to the business specified in paragraphs (a) and (b) of condition 7; and

   e) any other liabilities for which the prior written approval of the Reserve Bank has been obtained.

   In these conditions of registration:-

CONDITIONS OF REGISTRATION

"banking group" means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group's New Zealand business under section 461B(2) of the Financial Markets Conduct Act 2013.

"business of the registered bank in New Zealand" means the New Zealand business of the registered bank as defined in the requirement for financial statements for New Zealand business in section 461B(1) of the Financial Markets Conduct Act 2013.

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

DIRECTORATE AND AUDITOR

Any document or communication may be sent to any Director or the Chief Executive Officer – NZ Branch at the Registered Office. The document or communication should be marked for the attention of that Director or the Chief Executive Officer.

Directors' Interests

The Board of the Ultimate Parent Bank has adopted procedures to ensure that conflicts and potential conflicts of interest between a Director's duties to the Ultimate Parent Bank and their own interests are avoided or dealt with. Pursuant to these procedures:

- each Director should disclose to all Directors any material personal interest they have in any matter which relates to the affairs of the Ultimate Parent Bank and any other interest which the Director believes is appropriate to disclose in order to avoid an actual conflict of interest or the perception of a conflict of interest. This disclosure should be made as soon as practicable after the Director becomes aware of their interest or the need to make a disclosure.
- Director who has an interest of the type referred to in a. above in a matter that is to be considered at a Directors' meeting, must not vote on the matter nor be present while the matter is considered at the meeting, unless a majority of Directors who do not have such an interest in the matter agree that the interest should not disqualify such Director from being present while the matter is being considered and from voting on the matter. The minutes of the meeting should record the decision taken by the Directors who do not have an interest in the matter.

In addition, Standing Notices about Interests are maintained for each Director. If the Director's interests change, the Director shall disclose the change as soon as practicable and an updated Standing Notice shall be tabled at the next Board meeting and recorded in the minutes of that meeting.

Transactions with Directors and the Chief Executive Officer, NZ Branch

There are no transactions entered into by any Director, the Chief Executive Officer – NZ Branch, or any immediate relative or close business associate of any Director or the Chief Executive Officer – NZ Branch, with any part of ANZ New Zealand 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 Directors' or Chief Executive Officer – NZ Branch duties in respect of the NZ Branch and ANZ New Zealand.

Board Members as at 29 November 2017

The names, qualifications, occupation, country of residence and material external directorships of each director of the Ultimate Parent Bank as at the date this Disclosure Statement was signed were:

Chairman

David Michael Gonski, AC
BCom, LLB, FAICD(Life), FCPA
Company Director
Sydney, Australia

Mr Gonski is an ex-officio member of all Board Committees, including Chair of the Environment, Sustainability and Governance Committee.

Chairman: The University of New South Wales Foundation Ltd
Director/Member: Lowy Institute for International Policy, ASIC External Advisory Panel, Australian Philanthropic Services Ltd, Advisory Committee for Optus Ltd
Chancellor: University of New South Wales
President: Art Gallery of NSW Trust

Chief Executive Officer – Australia and New Zealand Banking Group

Shayne Cary Elliott
BCom
Chief Executive Officer and Executive Director
Melbourne, Australia

Director: The Financial Markets Foundation for Children
Member: Australian Banker's Association, Business Council of Australia

Non-Executive Directors

Ilana Rachel Atlas

BJuris (Hons), LLB (Hons), LLM
Company Director
Sydney, Australia

Ms Atlas is Chair of the Human Resources Committee and a member of the Audit Committee and Environment, Sustainability and Governance Committee.

External Directorships
Chairman: Coca-Cola Amatil Ltd, Jawun
Director: Human Rights Law Centre Ltd, Westfield Corporation Ltd, Paul Ramsay Foundation
Member: Panel of Adara Partners
Fellow: Senate of the University of Sydney

DIRECTORATE AND AUDITOR

Paula Jane Dwyer

BCom, FCA, SF Fin, FAICD
Company Director
Melbourne, Australia

Ms Dwyer is Chair of the Audit Committee and a member of the Risk Committee and Human Resources Committee.

External Directorships
Chairman: Tabcorp Holdings Ltd, Healthscope Ltd, Kin Group Advisory Board
Director: Lion Pty Ltd
Member: Kirin International Advisory Board

Jane Halton, AO, PSM

BA (Hons) Psychology, FIML, FIPAA, NAM, Hon. FAAHMS, Hons. FACHSE, Hon. DLitt (UNSWA)
Company Director
Canberra, Australia

Ms Halton is a member of the Human Resources Committee, Environment, Sustainability and Governance Committee and Digital Business and Technology Committee.

External Directorships
Chairman: Vault Systems
Director: Clayton Utz
Member: Executive Board of the Institute of Health Metrics and Evaluation at the University of Washington
Board Member: Coalition for Epidemic Preparedness Innovations (Norway)
Adjunct Professor: University of Sydney, University of Canberra
Council Member: Australian Strategic Policy Institute

Lee Hsien Yang

MSc, BA
Company Director
Singapore

Mr Lee is Chair of the Digital Business and Technology Committee and a member of the Risk Committee and Human Resources Committee.

External Directorships
Chairman: The Islamic Bank of Asia Ltd, Civil Aviation Authority of Singapore, General Atlantic Singapore Fund Pte Ltd
Director: Cluny Lodge Pte Ltd, Caldecott Inc., Rolls-Royce Holdings plc, General Atlantic Singapore Fund FII Pte Ltd
Member: Governing Board of Lee Kuan Yew School of Public Policy
Special Advisor: General Atlantic
President: INSEAD South East Asia Council

Graeme Richard Liebelt

BEc (Hons), FAICD, FTSE, FAML
Company Director
Melbourne, Australia

Mr Liebelt is Chair of the Risk Committee and a member of the Audit Committee and Human Resources Committee.

External Directorships
Chairman: Amcor Ltd
Director: Australian Foundation Investment Company Ltd, Carey Baptist Grammar School, DuluxGroup Ltd

John Thomas Macfarlane

BCom, MCom (Hons)
Company Director
Melbourne, Australia

Mr Macfarlane is a member of the Audit Committee, Risk Committee and Digital Business and Technology Committee.

External Directorships
Director: St. Vincent's Institute of Medical Research, Craigs Investment Partners Ltd, Colmac Group Pty Ltd, AGInvest Holdings Ltd (MyFarm Ltd), Aikenhead Centre for Medical Discovery Ltd, Collins Farms Ltd, Collins Farms No 2 Ltd, Dumbarton Land Company Ltd, Deer Improvement Ltd, The Kowhais Ltd, Waitakere Mega Centre Ltd, Balmoral Pastoral Investments Pty Ltd

Chief Executive Officer, Australia and New Zealand Banking Group – New Zealand Branch

Anthony John Bradshaw

BCA, CA
Chief Executive Officer– NZ Branch
Wellington, New Zealand

Auditor

KPMG

Chartered Accountants
10 Customhouse Quay
P O Box 996
Wellington, New Zealand

DIRECTORS' AND NEW ZEALAND CHIEF EXECUTIVE OFFICER'S STATEMENT

As at the date on which this Disclosure Statement is signed, after due enquiry, each Director of the Ultimate Parent Bank and the Chief Executive Officer – NZ Branch believes that:

- The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014
- The Disclosure Statement is not false or misleading.

Over the year ended 30 September 2017, after due enquiry, each Director of the Ultimate Parent Bank and the Chief Executive Officer – NZ Branch believes that:

- The Ultimate Parent Bank has complied with all Conditions of Registration that applied during that period
- The NZ Branch and the Bank had systems in place to monitor and control adequately the material risks of Relevant Members of ANZ New Zealand including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 29 November 2017, and has been signed by the Chairman of the Ultimate Parent Bank, on behalf of all Directors, and by the Chief Executive Officer – NZ Branch.

David Gonski, AC
Chairman,
on behalf of the Directors:

Ilana Atlas
Paula Dwyer
Shayne Elliott
David Gonski, AC
Jane Halton, AO, PSM
Lee Hsien Yang
Graeme Liebelt
John Macfarlane

Anthony Bradshaw
Chief Executive Officer – NZ Branch

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Independent Auditor's Report

To the Directors of Australia and New Zealand Banking Group Limited

Report on the ANZ New Zealand Disclosure Statement

Opinion

In our opinion, the accompanying consolidated financial statements (excluding supplementary information) of Australia and New Zealand Banking Group Limited - ANZ New Zealand and its related entities (ANZ New Zealand) on pages 3 to 59:

— give a true and fair view of the financial position of ANZ New Zealand as at 30 September 2017 and of the financial performance and cash flows for the year ended on that date

— comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards.

In our opinion, the supplementary information (excluding supplementary information) that is required to be disclosed in accordance with Schedules 4, 7, 10, 11 and 13 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and is included within the Balance Sheet and notes 14, 18, 28 and 33 of the disclosure statement:

— has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration

— is in accordance with the books and records of ANZ New Zealand in all material respects

— fairly states the matters to which it relates in accordance with those schedules.

We have audited the accompanying consolidated financial statements and supplementary information (excluding supplementary information) which comprise:

— the consolidated balance sheet as at 30 September 2017

— the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended

— notes, including a summary of significant accounting policies and other explanatory information

— the information that is required to be disclosed in accordance with Schedules 4, 7, 10, 11 and 13 of the Order.

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Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of ANZ New Zealand in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report.

Our firm has also provided other services to ANZ New Zealand 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 ANZ New Zealand on normal terms within the ordinary course of trading activities of the business of ANZ New Zealand. These matters have not impaired our independence as auditor of ANZ New Zealand. The firm has no other relationship with, or interest in, ANZ New Zealand.

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 Directors as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

The key audit matter

Provisions for Credit Impairment

The provision for credit impairment is a Key Audit Matter as ANZ New Zealand has significant credit risk exposure to a large number of counterparties across a wide range of lending and industries. The value of loans and advances on the balance sheet is significant and there is a high degree of complexity and judgement involved for ANZ New Zealand in estimating individual and collective credit impairment provisions against these loans. These features resulted in significant audit effort to address the risks around loan recoverability and the determination of related provisions.

How the matter was addressed in our audit

Our audit procedures over the individual and collective provision for credit impairment included:

Provisions against specific individual loans (individual provision)

— Testing the key controls over counterparty risk grading for wholesale loans (larger customer exposures that are monitored individually). We tested the approval of new lending facilities against ANZ New Zealand's lending policies, the performance of annual loan assessments, and controls over the monitoring of counterparty credit quality. This included testing controls over the identification of exposures showing signs of stress, either due to internal factors specific to the counterparty or external macroeconomic factors, and testing the timeliness of and the accuracy of counterparty risk assessments and risk grading against the requirements of ANZ New Zealand's lending policies

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- Performing credit assessments of a sample of wholesale loans managed by ANZ New Zealand's specialist workout and recovery team assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by ANZ New Zealand as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions). We challenged ANZ New Zealand's risk grading of the loan, their assessment of loan recoverability and the impact on the credit provision. To do this, we used the information on ANZ New Zealand's loan file, discussed the case with the loan officer and management, and performed our own assessment of recoverability. This involved using our understanding of relevant industries and the macroeconomic environment, and comparing assumptions of inputs used by ANZ New Zealand in recoverability assessments to externally sourced evidence, such as commodity prices, publicly available audited financial statements, and comparable external valuations of collateral held
- For retail loans (smaller customer exposures not monitored individually), we evaluated ANZ New Zealand's oversight of the portfolios, with a focus on controls over delinquency statistics monitoring. We tested the level of provisions held against different loan products, on a sample basis, based on the delinquency profile and challenged assumptions made in respect of expected recoveries, primarily from collateral held.

Provisions estimated across loan portfolios (collective provision)

- Testing ANZ New Zealand's processes to validate the models used to calculate collective provisions, and evaluating ANZ New Zealand's model methodologies against established market practices and criteria in the accounting standards
- Testing the key controls within IT systems used to calculate the collective provision, specifically those relating to data management and the completeness and accuracy of data transfer from underlying source systems to the collective provision models
- Testing the accuracy of key inputs into models by checking a sample of balances to the general ledger and risk ratings to source systems
- Challenging the key assumptions in the models such as emergence periods, probability of default and loss given default for a sample of retail and wholesale portfolios. We compared modelled estimates against actual losses incurred by ANZ New Zealand
- Re-performing, for a sample of retail and wholesale portfolios and using a KPMG-constructed calculation tool, the calculation of collective provisions to determine the accuracy of model output.

We also challenged key assumptions in the components of ANZ New Zealand's collective provision balance held above modelled provision estimates. This included:

- Evaluating inputs to the concentration risk and economic cycle provisions by comparing underlying portfolio characteristics to loss experience, current market conditions and specific risks inherent in ANZ New Zealand's loan portfolios
- Assessing the requirement for other additional provisions by considering model or data deficiencies identified by ANZ New Zealand's model validation processes
- Assessing the completeness of additional provisions by checking the consistency of risks identified in the portfolios to their inclusion in ANZ New Zealand's assessment.

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The key audit matter

Valuation of Financial Instruments

Financial instruments held at fair value on ANZ New Zealand's balance sheet include available-for-sale-assets, trading securities, derivative assets and liabilities, investments backing insurance contract liabilities, certain debt securities, and other assets and liabilities designated as measured at fair value through profit or loss.

The instruments are mainly risk management products sold to customers or used by ANZ New Zealand to manage its own interest rate and foreign exchange risk.

The valuation of financial instruments is considered a Key Audit Matter due to:

- Financial instruments held at fair value are significant (16% of assets and 9% of liabilities)
- The significant volume and range of products transacted, increases the risk of inconsistencies in transaction management processes that could lead to inaccurate valuation
- Determining the fair value of trading securities and derivatives involves a significant level of judgement by ANZ New Zealand, increasing the risk of error, and adding complexity to our audit. The level of judgement increases where internal models, as opposed to quoted market prices, are used to determine fair value of an instrument
- The valuation of certain derivatives held by ANZ New Zealand is sensitive to inputs including credit risk, funding rates, probabilities of default and loss given default, and industry practice is evolving as to how the impact of both funding and credit risk is incorporated within the valuation of certain derivative instruments. This increased our audit effort in this area and necessitated the involvement of valuation specialists.

How the matter was addressed in our audit

Our audit procedures for the valuation of financial instruments held at fair value included:

- Testing access rights and change management controls for key valuation systems
- Testing interface controls, notably the completeness and accuracy of data transfers between transaction processing systems, key systems used to generate valuations and any related valuation adjustments, and ANZ New Zealand's market risk management and finance systems to identify inconsistencies in transaction management and valuation processes across products
- Testing the governance and approval controls such as management review and approval of the valuation models and approval of new products against policies and procedures
- Testing the front office management review and approval of the daily financial instrument trading profit and loss reconciliations prepared by ANZ New Zealand's independent product control function
- Testing the management review and approval of model construction and validation, aimed at assessing the validity and robustness of underlying valuation models
- Testing ANZ New Zealand's data validation controls, such as those over key inputs in generating the fair value to market data where fair values were determined by front office teams.

We carried out testing over the valuation of financial instruments with both observable and unobservable inputs. Our specific testing involved valuation specialists and included:

- Re-performing the valuation of 'level 1' and 'level 2' available for sale assets and trading securities, which are primarily government, semi-government and corporate debt securities, by comparing the observable inputs, including quoted prices, to independently sourced market data

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- Using independent models, re-calculating the valuation of a sample of derivative assets and liabilities where the fair value was determined using observable inputs. This included comparing a sample of observable inputs used in ANZ New Zealand's derivative valuations to independently-sourced market data, such as interest rates, foreign exchange rates and volatilities
- Where the fair value of derivatives and other financial assets and liabilities were determined using unobservable inputs ('level 3' instruments), challenging ANZ New Zealand's valuation model by testing the key inputs used to comparable data in the market, including the use of proxy instruments and available alternatives
- Evaluating the appropriateness of ANZ New Zealand's valuation methodology for derivative financial instruments, having regard to current and emerging derivative valuation practices across a range of peer institutions and against the required criteria in the accounting standards. We tested adjustments made to valuations, particularly funding and credit valuation adjustments on un-collateralised derivatives. In particular, for a sample of individual counterparties, we tested key inputs to the credit valuation adjustment calculation, including the probability of default, against observable market data. Where proxies were used, we assessed the proxy against available alternatives across a number of locations.

The key audit matter

IT systems and controls

As a major New Zealand bank, ANZ New Zealand'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 ANZ New Zealand'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 ANZ New Zealand's IT controls. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

How the matter was addressed in our audit

We tested the control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems. Our audit procedures included:

- Testing the governance controls used by ANZ New Zealand's technology teams and third party suppliers to monitor system integrity, by checking matters impacting the operational integrity of core systems for escalation and action in accordance with ANZ New Zealand's policies
- Testing the access rights given to staff by checking them to approved records, and inspecting the reports over the granting and removal of access rights. We also looked for evidence of escalation of breaches
- Testing preventative controls designed to enforce segregation of duties between users within particular systems
- Testing the operating effectiveness of automated controls, principally relating to the automated calculation of financial transactions. We tested the inputs used within automated calculations to source data and also tested the accuracy of the calculation logic for a sample of transactions within each identified control
- Testing the operating effectiveness of automated reconciliation controls, both between systems and intra-system. For a sample of identified breaks, in reconciliations, we checked that these were recorded on exception reports, and subsequently investigated and cleared by ANZ New Zealand.

Other Information

The Directors, on behalf of ANZ New Zealand, are responsible for the other information included in the ANZ New Zealand's Disclosure Statement. Other information includes the general disclosures required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and New Zealand Chief Executive Officer's statement. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other legal and regulatory requirements

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

— we have obtained all the information and explanations we have required

— in our opinion, proper accounting records have been kept by ANZ New Zealand, as far as appears from our examination of those records.

Responsibilities of the Directors for the consolidated financial statements and supplementary information

The Directors, on behalf of ANZ New Zealand, are responsible for:

— the preparation and fair presentation of the consolidated financial statements in accordance with Clause 22 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, 10, 11 and 13 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

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the consolidated financial statements and supplementary information

Our objective is:

— to obtain reasonable assurance about whether the disclosure statement, including the consolidated financial statements prepared in accordance with Clause 22 of the Order, and supplementary information, in accordance with Schedules 4, 7, 10, 11 and 13 of the Order as a whole is free from material misstatement, whether due to fraud or error

— to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this consolidated financial statements.

A further description of our responsibilities for the Audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our Auditor's Report.

Review conclusion on the supplementary information relating to Capital Adequacy

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy, disclosed in note 26 to the disclosure statement, is not, in all material respects:

i. prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A)

ii. disclosed in accordance with Schedule 9 of the Order.

We have reviewed the supplementary information relating to Capital Adequacy, as disclosed in note 26 of the disclosure statement for the year ended 30 September 2017. The supplementary information relating to Capital Adequacy comprises the information that is required to be disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion on the supplementary information relating to Capital Adequacy

A review of the supplementary information relating to Capital Adequacy in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410) is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our responsibilities under that standard are further described in the Auditor's Responsibilities for the Review of the supplementary information relating to Capital Adequacy section of our report.

As the auditor of ANZ New Zealand, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Responsibilities of Directors for the supplementary information relating to capital adequacy

The Directors are responsible for the preparation of supplementary information relating to Capital Adequacy that is required to be disclosed under Schedule 9 of the Order and prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) and described in note 26 to the Disclosure Statement.

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Auditor's Responsibilities for the Review of the supplementary information relating to capital adequacy

Our responsibility is to express a conclusion on the Capital Adequacy information based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410) issued by the XRB. As the auditor of ANZ Bank, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and plan and perform the review to obtain limited assurance about whether the capital adequacy information is, in all material respects:

— prepared in accordance with ANZ New Zealand's conditions of registration

— disclosed in accordance with Schedule 9 of the Order.

A review of the Capital Adequacy information in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the supplementary information relating to Capital Adequacy disclosures.

Use of this Independent Auditor's Report

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the Independent Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our audit work, this report, or any of the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG

KPMG
Wellington

29 November 2017

anz.co.nz