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

FOR THE YEAR ENDED 30 SEPTEMBER 2018
NUMBER 39 | ISSUED NOVEMBER 2018

CONTENTS

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, We or Our means the New Zealand business of the Overseas Banking Group.

OnePath means OnePath Life (NZ) Limited.

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.

FINANCIAL STATEMENTS

In 2018, we have redesigned our Financial Statements to better communicate our performance to stakeholders by reducing complexity and simplifying our financial note disclosures.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

INCOME STATEMENT

For the year ended 30 September	Note	2018 NZ$m	2017 NZ$m
Interest income		6,550	6,434
Interest expense		(3,373)	(3,356)
Net interest income	2	3,177	3,078
Other operating income	2	733	582
Net funds management and insurance income	2	405	329
Share of associates' profit	2	5	5
Operating income		4,320	3,994
Operating expenses	3	(1,517)	(1,469)
Profit before credit impairment and income tax		2,803	2,525
Credit impairment charge	12	(53)	(60)
Profit before income tax		2,750	2,465
Income tax expense	4	(764)	(685)
Profit for the year		1,986	1,780

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2018 NZ$m	2017 NZ$m
Profit for the year	1,986	1,780
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	2	15
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised losses recognised directly in equity	(27)	(32)
Realised losses transferred to the income statement	5	12
Income tax attributable to the above items	7	6
Other comprehensive income after tax	(13)	1
Total comprehensive income for the year	1,973	1,781

The notes appearing on pages 8 to 56 form an integral part of these financial statements

BALANCE SHEET

As at 30 September	Note	2018 NZ$m	2017 NZ$m
Assets			
Cash and cash equivalents	7	2,407	2,338
Settlement balances owed to ANZ New Zealand		656	536
Collateral paid		1,919	1,415
Trading securities	8	8,024	7,663
Derivative financial instruments	9	8,072	9,749
Available-for-sale assets	10	6,502	6,360
Net loans and advances	11	128,677	121,968
Assets held for sale	25	897	3,065
Life insurance contract assets		-	636
Investments in associates		6	7
Goodwill and other intangible assets	19	3,289	3,275
Investments backing insurance contract liabilities		-	123
Premises and equipment		325	367
Other assets		642	683
Total assets		161,416	158,185
Liabilities			
Settlement balances owed by ANZ New Zealand		2,066	1,687
Collateral received		845	613
Deposits and other borrowings	13	112,920	108,013
Derivative financial instruments	9	8,133	9,894
Current tax liabilities		174	45
Deferred tax liabilities		23	189
Liabilities held for sale	25	334	1,088
Payables and other liabilities		955	1,161
Employee entitlements		120	119
Other provisions		76	66
Debt issuances	14	24,534	23,997
Total liabilities (excluding head office account)		150,180	146,872
Net assets (excluding head office account)		11,236	11,313
Equity			
Share capital and initial head office account	20	11,055	8,055
Reserves		33	48
Retained earnings		148	3,210
Total equity & head office account		11,236	11,313

The notes appearing on pages 8 to 56 form an integral part of these financial statements

FINANCIAL STATEMENTS

CASH FLOW STATEMENT

For the year ended 30 September	2018 NZ$m	2017 NZ$m
Profit after income tax	1,986	1,780
Adjustments to reconcile to net cash provided by/(used in) operating activities:		
Depreciation and amortisation	88	80
Loss on sale of premises and equipment	4	2
Impairment of goodwill	-	3
Net derivatives/foreign exchange adjustment	1,050	(1,613)
Other non-cash movements	(19)	92
Net (increase)/decrease in operating assets:		
Collateral paid	(504)	895
Trading securities	(361)	4,316
Net loans and advances	(3,797)	(4,229)
Other assets	(266)	(27)
Net increase in operating liabilities:		
Deposits and other borrowings (excluding borrowings from Immediate Parent and Ultimate Parent Bank)	5,345	3,586
Settlement balances owed by ANZ New Zealand	448	68
Collateral received	232	84
Other liabilities	53	117
Total adjustments	2,273	3,374
Net cash flows provided by operating activities[1]	4,259	5,154
Cash flows from investing activities		
Available-for-sale assets:[2]		
Purchases	(4,368)	(10,803)
Proceeds from sale or maturity	4,246	7,266
Other assets	3	(49)
Net cash flows used in investing activities	(119)	(3,586)
Cash flows from financing activities		
Debt issuances[3]		
Issue proceeds	3,385	4,922
Redemptions	(3,991)	(3,899)
Borrowings from Immediate Parent and Ultimate Parent Bank:[2,4]		
Loans drawn down	603	1,831
Repayments	(2,119)	(2,663)
Proceeds from issue of preference shares	3,000	-
Dividends paid	(4,600)	(1,635)
NZ Branch retained earnings repatriated	(450)	-
Net cash flows used in financing activities	(4,172)	(1,444)
Net increase / (decrease) in cash and cash equivalents	(32)	124
Cash and cash equivalents at beginning of year	2,439	2,315
Cash and cash equivalents at end of year	2,407	2,439

1 Net cash provided by operating activities includes income taxes paid of NZ$619 million (2017: NZ$605 million).
2 We have reassessed the composition of operating, investing and financing cash flows. Cash flows from these items were previously included in operating activities, and comparative amounts have been reclassified.
3 Movement in debt issuances (Note 14) also includes an NZ$1,371 million increase (2017: NZ$557 million increase) from the effect of foreign exchange rates, a NZ$246 million decrease (2017: NZ$247 million decrease) from changes in fair value hedging instruments and an NZ$18 million increase (2017: NZ$26 million increase) of other changes.
4 Movement in borrowings from Immediate Parent and Ultimate Parent Bank (Note 13) also includes a NZ$95 million increase (2017: NZ$550 million decrease) from the effect of foreign exchange rates, a NZ$56 million decrease (2017: NZ$62 million decrease) from changes in fair value hedging instruments and no movement in other changes (2017: NZ$2 million increase).

The notes appearing on pages 8 to 56 form an integral part of 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 2016		8,055	-	62	3,050	11,167
Profit or loss		-	-	-	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
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary dividends paid	5	-	-	-	(1,635)	(1,635)
Transactions with Immediate Parent Company in its capacity as owner		-	-	-	(1,635)	(1,635)
As at 30 September 2017		8,055	5	43	3,210	11,313
Profit or loss		-	-	-	1,986	1,986
Unrealised gains / (losses) recognised directly in equity		-	8	(35)	-	(27)
Realised losses transferred to the income statement		-	-	5	-	5
Actuarial gain on defined benefit schemes		-	-	-	3	3
Income tax credit / (expense) on items recognised directly in equity		-	(2)	9	(1)	6
Total comprehensive income for the year		-	6	(21)	1,988	1,973
Transactions with Immediate Parent Company in its capacity as owner:						
Preference shares issued	20	3,000	-	-	-	3,000
Ordinary dividends paid	5	-	-	-	(4,600)	(4,600)
Transactions with Immediate Parent Company in its capacity as owner		3,000	-	-	(4,600)	(1,600)
NZ Branch retained earnings repatriated		-	-	-	(450)	(450)
As at 30 September 2018		11,055	11	22	148	11,236

The notes appearing on pages 8 to 56 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS

These are the financial statements for ANZ New Zealand for the year ended 30 September 2018. The Ultimate Parent Bank is incorporated in Australia and is also registered in New Zealand (NZ Branch). The NZ Branch is domiciled in New Zealand, and the address of the NZ Branch's registered office and its principal place of business is Level 10, 171 Featherston Street, Wellington, New Zealand.

On 15 November 2018, the Directors resolved to authorise the issue of these financial statements.

In 2018, we reviewed the content and structure of the financial statements with the aim of increasing their relevance to stakeholders. This review has resulted in a number of changes to the financial statements from previous years, including:

- moving disclosures required by the Order to a separate 'Registered Bank Disclosures' section of the Disclosure Statement;
- information about ANZ New Zealand's recognition and measurement policies and key judgements and estimates has been relocated and is now disclosed within the relevant notes to the financial statements;
- removing immaterial disclosures; and
- aggregating prior year numbers in certain disclosures.

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

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

This section of the financial statements:

- outlines the basis upon which ANZ New Zealand's financial statements have been prepared; and
- discusses any new accounting standards or regulations that directly impact financial statement disclosure requirements.

BASIS OF PREPARATION

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

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

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

BASIS OF MEASUREMENT

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

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

BASIS OF CONSOLIDATION

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

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

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

We measure translation differences on non-monetary items at fair value through profit or loss and report them as part of the fair value gain or loss on these items. We include any translation differences on non-monetary items classified as available-for-sale financial assets in the available-for-sale revaluation reserve in equity.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

KEY JUDGEMENTS AND ESTIMATES

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

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2018, and have not been applied by 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 is effective for ANZ New Zealand from 1 October 2018. NZ IFRS 9 stipulates new requirements for the impairment of financial assets, classification and measurement of financial assets and financial liabilities and general hedge accounting. Details of the key requirements and estimated impacts on ANZ New Zealand are outlined below.

Impairment
NZ IFRS 9 replaces the incurred loss impairment model under NZ IAS 39: *Financial Instruments: Recognition and Measurement* (NZ IAS 39) with an expected credit loss (ECL) model incorporating forward looking information. The ECL model will be applied to all financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, certain loan commitments and financial guarantees. Under the ECL model, the following three-stage approach is applied to measuring ECL based on credit migration between the stages since origination:

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

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

Classification and measurement
There are three measurement classifications under NZ IFRS 9: Amortised cost, Fair Value through Profit or Loss and Fair Value through Other Comprehensive Income. Financial assets are classified into these measurement classifications taking into account the business model within which they are managed, and their contractual cash flow characteristics.

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

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

NZ IFRS 9 provides ANZ New Zealand with an accounting policy choice to continue to apply the NZ IAS 39 hedge accounting requirements until the International Accounting Standards Board's ongoing project on macro hedge accounting is completed. ANZ New Zealand's current expectation is that it will continue to apply the hedge accounting requirements of NZ IAS 39.

Transition to NZ IFRS 9
Other than as noted above under classification and measurement of financial liabilities, NZ IFRS 9 has a date of initial application for ANZ New Zealand of 1 October 2018. The classification and measurement, and impairment requirements, will be applied retrospectively by adjusting opening retained earnings at 1 October 2018. ANZ New Zealand does not intend to restate comparatives.

Impact
Impairment
Based on the portfolio of in-scope financial assets held as at 30 September 2018, economic conditions prevailing at that time and management's judgements and estimates, the application of NZ IFRS 9 as at 1 October 2018 has resulted in higher aggregate impairment provisions of approximately NZ$72 million, with an associated decrease in deferred tax liabilities of approximately NZ$20 million. The net impact on total equity is a reduction of approximately NZ$52 million. These estimates remain subject to change until ANZ New Zealand finalises its financial statements for the year ending 30 September 2019.

Classification and measurement of financial assets
There have been no changes in classification and measurement as a result of the application of the business model and contractual cash flow characteristics tests.

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

NZ IFRS 15 Revenue from Contracts with Customers (NZ IFRS 15)
NZ IFRS 15 is effective for ANZ New Zealand from 1 October 2018 and replaces existing guidance on the recognition of revenue from contracts with customers. The standard requires identification of distinct performance obligations within a contract, and allocation of the transaction price of the contract to those performance obligations. Revenue is then recognised as each performance obligation is satisfied. The standard also provides guidance on whether an entity is acting as a principal or an agent which impacts the presentation of revenue on a gross or net basis.

ANZ New Zealand has assessed all revenue streams existing at the date of transition to the new standard and determined that the impact of NZIFRS 15 is immaterial given the majority of ANZ New Zealand revenues are outside the scope of the standard. ANZ New Zealand will adopt IFRS 15 retrospectively including restatement of prior period comparatives.

NZ IFRS 16 Leases (NZ IFRS 16)
The final version of NZ IFRS 16 was issued in February 2016 and is not effective for 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 its obligation to make lease payments as a lease liability. NZ IFRS 16 substantially carries forward the lessor accounting requirements in NZ IAS 17 *Leases*.

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.

2. OPERATING INCOME

	2018 NZ$m	2017 NZ$m
Net Interest income		
Interest income by type of financial asset		
Financial assets at amortised cost	6,146	5,972
Trading securities	240	351
Available-for-sale assets	159	106
Financial assets at fair value through profit or loss	5	5
Interest income	6,550	6,434
Interest expense by type of financial liability		
Financial liabilities at amortised cost	(3,301)	(3,218)
Financial liabilities designated at fair value through profit or loss	(72)	(138)
Interest expense	(3,373)	(3,356)
Net interest income	3,177	3,078
Other operating income		
(i) Fee and commission income		
Lending and credit facility fees	32	35
Non-lending fees and commissions	716	688
Fee and commission income	748	723
Fee and commission expense	(363)	(328)
Net fee and commission income	385	395
(ii) Other income		
Net foreign exchange earnings and other financial instruments income	264	119
Derivative valuation adjustments	13	34
Gain on UDC terminated transaction	20	-
Insurance proceeds	20	-
Other	31	34
Other income	348	187
Other operating income	733	582
Net funds management and insurance income		
Net funds management income	217	199
Net insurance income	188	130
Net funds management and insurance income	405	329
Share of associates' profit	5	5
Operating income	4,320	3,994

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest Income and Expense

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

OTHER OPERATING INCOME

Fee and Commission Income

We recognise fees or commissions:

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

Net Foreign Exchange Earnings and Other Financial Instruments Income

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

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

NET FUNDS MANAGEMENT AND INSURANCE INCOME

Net Funds Management Income

We recognise the fees we charge to managed investment schemes and other customers when we have provided the service.

Net Insurance Income

We recognise:

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

SHARE OF ASSOCIATES' PROFIT

The equity method is applied to accounting for associates in the consolidated financial statements. Under the equity method, ANZ New Zealand's share of the after tax results of associates is included in the Income Statement and the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

3. OPERATING EXPENSES

	2018 NZ$m	2017 NZ$m
Personnel		
Salaries and related costs	820	801
Superannuation costs	29	29
Other	42	26
Personnel expenses	891	856
Premises		
Leasing and rental costs	82	80
Other	71	73
Premises expenses	153	153
Technology		
Licences and outsourced services	126	125
Other	99	93
Technology expenses	225	218
Other		
Advertising and public relations	43	41
Professional fees	45	43
Freight, stationery, postage and telephone	44	45
Charges from Ultimate Parent Bank	52	46
Other	64	67
Other expenses	248	242
Operating expenses	1,517	1,469

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

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

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

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

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

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

4. INCOME TAX

INCOME TAX EXPENSE

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

	2018 NZ$m	2017 NZ$m
Profit before income tax	**2,750**	2,465
Prima facie income tax expense at 28%	**770**	690
Tax effect of permanent differences:		
Imputed and non-assessable dividends	**(1)**	(1)
Tax provisions no longer required	**(3)**	(5)
Non assessable income and non deductible expenditure	**(1)**	2
Subtotal	**765**	686
Income tax over provided in previous years	**(1)**	(1)
Income tax expense	**764**	685
Current tax expense	**923**	646
Adjustments recognised in the current year in relation to the current tax of previous years	**(1)**	(1)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	**(158)**	40
Income tax expense	**764**	685
Effective tax rate	**27.8%**	27.8%

RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

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

CURRENT TAX EXPENSE

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

DEFERRED TAX ASSETS AND LIABILITIES

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

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

NOTES TO THE FINANCIAL STATEMENTS

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

Dividends	Amount per share	Total Dividend NZ$m
Financial Year 2017		
Dividend paid in March 2017	202.3 cents	765
Dividend paid in September 2017	230.1 cents	870
Dividends paid during the year ended 30 September 2017		1,635
Financial Year 2018		
Dividend paid in March 2018	211.6 cents	800
Dividend paid in April 2018	793.3 cents	3,000
Dividend paid in September 2018	211.6 cents	800
Dividends paid during the year ended 30 September 2018		4,600

IMPUTATION CREDIT ACCOUNT

	2018 NZ$m	2017 NZ$m
Imputation credits available	4,919	4,196

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.

6. SEGMENT REPORTING

OPERATING SEGMENTS

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

Commercial

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

Institutional

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

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

Other

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

6. SEGMENT REPORTING (continued)

Operating segment analysis

Year ended 30 September 2018	Retail NZ$m	Commercial NZ$m	Institutional NZ$m	Other NZ$m	Total NZ$m
Interest income	3,701	2,139	710	-	6,550
Interest expense	(1,868)	(1,169)	(383)	47	(3,373)
Net interest income	1,833	970	327	47	3,177
Other operating income	679	21	265	173	1,138
Share of associates' profit	5	-	-	-	5
Operating income	2,517	991	592	220	4,320
Operating expenses	(1,036)	(258)	(182)	(41)	(1,517)
Profit before credit impairment and income tax	1,481	733	410	179	2,803
Credit impairment (charge) / release	(48)	41	(46)	-	(53)
Profit before income tax	1,433	774	364	179	2,750
Income tax expense	(400)	(217)	(102)	(45)	(764)
Profit after income tax	1,033	557	262	134	1,986
Other information					
Goodwill[1]	1,109	1,052	1,069	-	3,230
Net loans and advances	79,052	42,446	7,166	13	128,677
Customer deposits	70,259	16,842	16,954	-	104,055
Year ended 30 September 2017					
Interest income	3,683	2,070	676	5	6,434
Interest expense	(1,911)	(1,170)	(314)	39	(3,356)
Net interest income	1,772	900	362	44	3,078
Other 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)	(189)	(16)	(1,469)
Profit before credit impairment and income tax	1,447	662	475	(59)	2,525
Credit impairment (charge) / release	(33)	(51)	24	-	(60)
Profit before income tax	1,414	611	499	(59)	2,465
Income tax expense	(395)	(172)	(141)	23	(685)
Profit after income tax	1,019	439	358	(36)	1,780
Other information					
Goodwill[1]	1,109	1,052	1,069	-	3,230
Net loans and advances[1]	76,278	40,963	7,590	49	124,880
Customer deposits[1]	67,796	14,059	14,974	-	96,829

[1] Including items reclassified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT REPORTING (continued)

OTHER SEGMENT

The Other segment profit/(loss) after income tax comprises:

	2018 NZ$m	2017 NZ$m
Central functions[1]	15	1
Technology and Group Centre	37	38
Economic hedges	67	(50)
Revaluation of insurance policies from changes in interest rates	15	(25)
Total	134	(36)

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

7. CASH AND CASH EQUIVALENTS

	2018 NZ$m	2017 NZ$m
Coins, notes and cash at bank	411	202
Securities purchased under agreements to resell in less than 3 months	136	360
Balances with central banks	1,734	1,776
Settlement balances owed to ANZ New Zealand within 3 months[1]	126	-
Cash and cash equivalents	2,407	2,338

Reconciliation of cash and cash equivalents to the balance sheet

	2018 NZ$m	2017 NZ$m
Cash and cash equivalents per the balance sheet	2,407	2,338
Amounts included in settlement balances receivable / (payable):		
Nostro accounts[1]	-	170
Overdrawn nostro accounts	-	(69)
Cash and cash equivalents as per the cash flow statement	2,407	2,439

1 Settlement balances due within 3 months have been recognised in cash and cash equivalents on the balance sheet from 30 September 2018.

8. TRADING SECURITIES

	2018 NZ$m	2017 NZ$m
Government securities	4,696	3,299
Corporate and financial institution securities	3,328	4,364
Trading securities	8,024	7,663

RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

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

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

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

KEY JUDGEMENTS AND ESTIMATES

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

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value	Assets 2018 NZ$m	Liabilities 2018 NZ$m	Assets 2017 NZ$m	Liabilities 2017 NZ$m
Derivative financial instruments - held for trading	7,732	(6,978)	9,361	(9,043)
Derivative financial instruments - designated in hedging relationships	340	(1,155)	388	(851)
Derivative financial instruments	8,072	(8,133)	9,749	(9,894)

FEATURES

Derivative financial instruments are contracts:

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

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

PURPOSE

ANZ New Zealand's derivative financial instruments have been categorised as follows:

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

TYPES

ANZ New Zealand offers and uses four different types of derivative financial instruments:

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

RISKS MANAGED

ANZ New Zealand offers and uses the instruments described above to manage fluctuations in the following market factors:

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

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

The majority of ANZ New Zealand's derivative financial instruments are held for trading. The fair value of derivative financial instruments held for trading are:

Fair value	Assets 2018 NZ$m	Liabilities 2018 NZ$m	Assets 2017 NZ$m	Liabilities 2017 NZ$m
Interest rate contracts				
Forward rate agreements	5	(4)	-	-
Futures contracts	7	(10)	5	(24)
Swap agreements	4,227	(3,887)	7,037	(6,322)
Options purchased	3	-	3	-
Options sold	-	(1)	-	(1)
Total	4,242	(3,902)	7,045	(6,347)
Foreign exchange contracts				
Spot and forward contracts	1,166	(888)	605	(696)
Swap agreements	2,262	(2,135)	1,679	(1,959)
Options purchased	34	(3)	17	-
Options sold	2	(24)	2	(27)
Total	3,464	(3,050)	2,303	(2,682)
Commodity contracts and credit default swaps	26	(26)	13	(14)
Derivative financial instruments - held for trading	7,732	(6,978)	9,361	(9,043)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

ANZ New Zealand utilises two types of hedge accounting relationships:

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

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

Fair value	Hedge accounting type	Assets 2018 NZ$m	Liabilities 2018 NZ$m	Assets 2017 NZ$m	Liabilities 2017 NZ$m
Interest rate swap agreements	Fair value	54	(902)	86	(635)
Interest rate swap agreements	Cash flow	286	(253)	302	(216)
Derivative financial instruments - designated in hedging relationships		340	(1,155)	388	(851)

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	Hedge accounting type	2018 NZ$m	2017 NZ$m
Gain/(loss) recognised in other operating income			
Hedged item	Fair value	265	203
Hedging instrument	Fair Value	(270)	(209)

RECOGNITION AND MEASUREMENT

Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is: positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when ANZ New Zealand's contractual obligations are discharged, cancelled or expired.
Impact on the Income Statement	How we recognise gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated into a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss. For an instrument designated into a hedging relationship the recognition of gains or losses depends on the nature of the item being hedged. Refer to the previous table on page 19 for profit or loss treatment depending on the hedge type.
Hedge effectiveness	To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met: • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). ANZ New Zealand monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.

KEY JUDGEMENTS AND ESTIMATES

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

10. AVAILABLE-FOR-SALE ASSETS

Period	Security type	2018 Government securities NZ$m	2018 Corporate and financial institution securities NZ$m	2018 Equity securities NZ$m	2018 Total NZ$m	2017 Government securities NZ$m	2017 Corporate and financial institution securities NZ$m	2017 Equity securities NZ$m	2017 Total NZ$m
Less than 3 months		110	19	-	129	277	270	-	547
Between 3 and 12 months		616	162	-	778	695	158	-	853
Between 1 and 5 years		3,134	1,831	-	4,965	2,609	1,578	-	4,187
Greater than 5 years		458	171	-	629	657	115	-	772
No maturity		-	-	1	1	-	-	1	1
Available-for-sale assets		4,318	2,183	1	6,502	4,238	2,121	1	6,360

RECOGNITION AND MEASUREMENT

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

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

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

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

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

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

KEY JUDGEMENTS AND ESTIMATES

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

11. NET LOANS AND ADVANCES

The following table provides details of net loans and advances for ANZ New Zealand:

	Note	2018 NZ$m	2017 NZ$m
Overdrafts		905	1,040
Credit cards		1,644	1,638
Term loans - housing		80,609	76,870
Term loans - non-housing		44,169	44,227
Finance lease and hire purchase receivables		1,791	1,577
Subtotal		129,118	125,352
Unearned income		(239)	(222)
Capitalised brokerage/mortgage origination fees		314	336
Gross loans and advances (including assets reclassified as held for sale)		129,193	125,466
Provision for credit impairment	12	(516)	(586)
Net loans and advances (including assets reclassified as held for sale)		128,677	124,880
Less: Net loans and advances reclassified as held for sale	25	-	(2,912)
Net loans and advances		128,677	121,968
Residual contractual maturity:			
- within one year		26,937	28,195
- after more than one year		101,740	93,773
Net loans and advances		128,677	121,968

RECOGNITION AND MEASUREMENT

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

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

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

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, the transferred assets remain on ANZ New Zealand's balance sheet, however if substantially all the risks and rewards are transferred, 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, ANZ New Zealand continues to recognise the asset to the extent of its continuing involvement.

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

12. PROVISION FOR CREDIT IMPAIRMENT

PROVISION FOR CREDIT IMPAIRMENT – BALANCE SHEET

	Net loans and advances		Off-balance sheet credit related commitments		Total	
	2018	2017	2018	2017	2018	2017
Provision for credit impairment	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m
Individual provision						
Balance at start of year	154	154	-	-	154	154
New and increased provisions	214	234	-	-	214	234
Write-backs	(83)	(97)	-	-	(83)	(97)
Bad debts written off (excluding recoveries)	(149)	(133)	-	-	(149)	(133)
Discount unwind	(4)	(4)	-	-	(4)	(4)
Total individual provision	132	154	-	-	132	154
Collective provision						
Balance at start of year	348	374	84	104	432	478
Release to profit or loss	(36)	(26)	(12)	(20)	(48)	(46)
Total collective provision	312	348	72	84	384	432
Total provision for credit impairment	444	502	72	84	516	586

CREDIT IMPAIRMENT CHARGE – INCOME STATEMENT

Credit impairment charge	2018 NZ$m	2017 NZ$m
New and increased provisions	214	234
Write-backs	(83)	(97)
Recoveries of amounts previously written-off	(30)	(31)
Individual credit impairment charge	101	106
Collective credit impairment release	(48)	(46)
Total credit impairment charge	53	60

NOTES TO THE FINANCIAL STATEMENTS

12. PROVISION FOR CREDIT IMPAIRMENT (continued)

RECOGNITION AND MEASUREMENT

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.

The accounting treatment for each of them is detailed below:

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

KEY JUDGEMENTS AND ESTIMATES

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

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

We regularly review our key judgements and update them to reflect actual loss experience.

13. DEPOSITS AND OTHER BORROWINGS

	Note	2018 NZ$m	2017 NZ$m
Term deposits		**51,298**	45,457
On demand and short term deposits		**41,602**	41,451
Deposits not bearing interest		**10,224**	8,882
UDC secured investments	17	**931**	1,039
Total customer deposits		**104,055**	96,829
Certificates of deposit		**910**	1,916
Commercial paper		**2,486**	3,721
Securities sold under repurchase agreements		**517**	157
Borrowings from Ultimate Parent Bank and Immediate Parent Company	26	**4,952**	6,429
Deposits and other borrowings (including liabilities reclassified as held for sale)		**112,920**	109,052
Less: Deposits and other borrowings reclassified as held for sale	25	**-**	(1,039)
Deposits and other borrowings		**112,920**	108,013
Residual contractual maturity:			
- to be settled within 1 year		**107,692**	101,360
- to be settled after 1 year		**5,228**	6,653
Deposits and other borrowings		**112,920**	108,013
Carried on Balance Sheet at:			
Amortised cost		**110,434**	104,292
Fair value through profit or loss (designated on initial recognition)		**2,486**	3,721
Deposits and other borrowings		**112,920**	108,013

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.

RECOGNITION AND MEASUREMENT

For deposits and other borrowings that:

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

14. DEBT ISSUANCES

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

	2018 NZ$m	2017 NZ$m
Senior debt	18,767	16,008
Covered bonds	3,929	5,315
Total unsubordinated debt	**22,696**	21,323
Subordinated debt		
- ANZ Capital Notes	1,549	1,541
- Other	289	1,133
Total subordinated debt	**1,838**	2,674
Total debt issued	**24,534**	23,997

TOTAL DEBT ISSUED BY CURRENCY

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

		2018 NZ$m	2017 NZ$m
AUD	Australian Dollars	1,385	1,386
EUR	Euro	6,740	6,676
JPY	Japanese Yen	36	38
NZD	New Zealand Dollars	4,713	5,206
CHF	Swiss Francs	1,658	1,672
USD	United States Dollars	10,002	9,019
Total debt issued		**24,534**	23,997
Residual contractual maturity:			
- to be settled within 1 year		4,124	4,302
- to be settled after 1 year		20,410	19,695
Total debt issued		**24,534**	23,997

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

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

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

14. DEBT ISSUANCES (continued)

ANZ Capital Notes

ANZ Capital Notes are fully paid mandatorily convertible non-cumulative perpetual subordinated notes. ANZ Capital Notes 3 (ANZ CN3) rank equally with other additional tier 1 capital instruments issued by the Ultimate Parent Bank. ANZ New Zealand Capital Notes (ANZ NZ CN) rank equally with the Bank's other additional tier 1 capital instruments, including preference shares. Holders of ANZ Capital Notes do not have any right to vote in general meetings of the Ultimate Parent Bank or the Bank.

As at 30 September 2018, ANZ NZ CN carried a BB+ credit rating from S&P Global Ratings.

ANZ Capital 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 ordinary shares of the Ultimate Parent Bank.

Distributions on ANZ CN3 and interest payments on ANZ NZ CN are non-cumulative and subject to the issuer's absolute discretion and certain payment conditions (including regulatory requirements). Distributions on ANZ CN3 are franked in line with the franking applied to the Ultimate Parent Bank's ordinary shares.

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

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

ANZ Capital Notes mandatorily convert into a variable number of ordinary shares of the Ultimate Parent Bank (based on the average market price of the shares immediately prior to conversion less a 1% discount):

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

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

The table below show the key details of the ANZ Capital Notes on issue at 30 September in both the current and the prior year:

	ANZ CN 3	ANZ NZ CN
Issuer	NZ Branch	The Bank
Issue date	5 March 2015	31 March 2015
Issue amount	AU$970 million	NZ$500 million
Face value	AU$100	NZ$1
Distribution/interest frequency	Semi-annually in arrears	Quarterly in arrears
Distribution/interest rate	Floating rate: (Australian 180 day Bank Bill rate + 3.6%) x (1-Australian corporate tax rate)	Fixed at 7.2% p.a. until 25 May 2020. Resets in May 2020 to a floating rate: (New Zealand 3 month Bank Bill rate + 3.5%)
Issuer's early redemption or conversion option	24 March 2023	25 May 2020
Mandatory conversion date	24 March 2025	25 May 2022
Common equity capital trigger event	Yes	Yes
Non-viability trigger event	Yes	Yes
Carrying value as at 30 September 2018 (net of issue costs)	NZ$1,051 million	NZ$498 million

RECOGNITION AND MEASUREMENT

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

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

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

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

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

Principal financial risks	Key sections applicable to this risk
Overview	• An overview of our Risk Management Framework
Credit risk Credit risk is the risk of financial loss from a customer, or counterparty, failing to meet their financial obligations – including the whole and timely payment of principal, interest, collateral, and other receivables.	• Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management
Market risk Market risk is the risk of loss arising from potential adverse changes in the value of ANZ New Zealand's assets and liabilities and other trading positions from fluctuations in market variables. These variables include, but are not limited to interest rates, foreign exchange, equity prices, commodity prices, credit spreads, implied volatilities, and asset correlations.	• Market risk overview, management and control responsibilities • Measurement of market risk • Traded and non-traded market risk • Foreign currency risk – structural exposure
Liquidity and funding risk Liquidity risk is the risk that ANZ New Zealand is unable to meet its payment obligations when they fall due; or does not have the appropriate amount, tenor and composition of funding and liquidity to fund increases in its assets.	• Liquidity risk overview, management and control responsibilities • Key areas of measurement for liquidity risk • Liquidity portfolio management • Funding position • Residual contractual maturity analysis of ANZ New Zealand's liabilities

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

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

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

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

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

ANZ New Zealand has an independent risk management function, headed by the Chief Risk Officer who:
- is responsible for overseeing the risk profile and the risk management framework;
- can effectively challenge activities and decisions that materially affect ANZ New Zealand's risk profile; and
- has an independent reporting line to the BRC to enable the appropriate escalation of issues of concern.

The Internal Audit Function reports directly to the Bank's Board Audit Committee (BAC). Internal Audit provides:
- an independent evaluation of ANZ New Zealand's RMF annually and undertakes a comprehensive review every three years;
- assurance on the appropriateness, effectiveness and adequacy of the risk management framework, which includes assurance the framework is operating effectively; and
- recommendations to improve the framework and/or work practices to strengthen the effectiveness of day to day operations.

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

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

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

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

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

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

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

We use ANZ New Zealand's internal CCRs to manage the credit quality of financial assets neither past due nor impaired. To enable wider comparisons, ANZ New Zealand's CCRs are mapped to external rating agency scales as follows:

Internal Rating	ANZ New Zealand Customer Requirements	Moody's Rating	S&P Global Ratings
Strong credit profile	Demonstrated superior stability in their operating and financial performance over the long-term, and whose earnings capacity is not significantly vulnerable to foreseeable events.	Aaa – Baa3	AAA – BBB-
Satisfactory risk	Demonstrated sound operational and financial stability over the medium to long-term — even though some may be susceptible to cyclical trends or variability in earnings.	Ba1 – B1	BB+ – B+
Sub-standard but not past due nor impaired	Demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.	B2 – Caa	B - CCC

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

MAXIMUM EXPOSURE TO CREDIT RISK

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

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

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

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

	Reported		Excluded[1] / Other[2]		Maximum exposure to credit risk	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
On-balance sheet positions						
Net loans and advances[2,3]	128,677	124,880	(72)	(84)	128,749	124,964
Other financial assets:						
Cash and cash equivalents	2,407	2,338	204	198	2,203	2,140
Settlement balances owed to ANZ New Zealand	656	536	-	-	656	536
Collateral paid	1,919	1,415	-	-	1,919	1,415
Trading securities	8,024	7,663	-	-	8,024	7,663
Derivative financial instruments	8,072	9,749	-	-	8,072	9,749
Available-for-sale assets	6,502	6,360	-	-	6,502	6,360
Other financial assets[4]	719	744	-	-	719	744
Total other financial assets	28,299	28,805	204	198	28,095	28,607
Subtotal	156,976	153,685	132	114	156,844	153,571
Off-balance sheet positions						
Undrawn and contingent facilities[2,5]	29,855	29,128	72	84	29,783	29,044
Total	186,831	182,813	204	198	186,627	182,615

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

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT QUALITY

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

- neither past due nor impaired financial assets by credit quality;
- past due but not impaired assets by ageing; and
- impaired assets presented as gross amounts and net of provision for credit impairment.

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Neither past due nor impaired								
Strong credit profile	94,747	85,260	27,561	27,895	23,224	22,673	145,532	135,828
Satisfactory risk	29,506	34,810	521	702	6,186	6,016	36,213	41,528
Sub-standard but not past due or impaired	2,314	2,602	13	10	359	349	2,686	2,961
Subtotal	126,567	122,672	28,095	28,607	29,769	29,038	184,431	180,317
Past due but not impaired								
≥ 1 < 30 days	1,441	1,431	-	-	-	-	1,441	1,431
≥ 30 < 60 days	190	305	-	-	-	-	190	305
≥ 60 < 90 days	139	144	-	-	-	-	139	144
≥ 90 days	221	205	-	-	-	-	221	205
Subtotal	1,991	2,085	-	-	-	-	1,991	2,085
Impaired								
Impaired loans	323	361	-	-	-	-	323	361
Non-performing commitments and contingencies	-	-	-	-	14	6	14	6
Gross impaired financial assets	323	361	-	-	14	6	337	367
Individual provisions	(132)	(154)	-	-	-	-	(132)	(154)
Subtotal net impaired	191	207	-	-	14	6	205	213
Total	128,749	124,964	28,095	28,607	29,783	29,044	186,627	182,615

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CONCENTRATIONS OF CREDIT RISK

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

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

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

	Loans and advances[3,4]		Other financial assets[4]		Off-balance sheet credit related commitments[5]		Total	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
New Zealand residents								
Agriculture	**17,845**	17,689	**82**	83	**1,373**	1,436	**19,300**	19,208
Forestry and fishing, agriculture services	**1,379**	1,277	**9**	5	**249**	240	**1,637**	1,522
Manufacturing	**2,687**	2,730	**284**	169	**1,793**	1,798	**4,764**	4,697
Electricity, gas, water and waste services	**1,403**	1,602	**330**	457	**1,576**	1,522	**3,309**	3,581
Construction	**1,714**	1,640	**21**	18	**1,358**	1,119	**3,093**	2,777
Wholesale trade	**1,404**	1,630	**63**	54	**1,521**	1,357	**2,988**	3,041
Retail trade and accommodation	**3,214**	3,065	**27**	28	**969**	1,133	**4,210**	4,226
Transport, postal and warehousing	**1,224**	1,442	**121**	69	**783**	894	**2,128**	2,405
Finance and insurance services	**871**	905	**5,480**	5,239	**1,317**	1,010	**7,668**	7,154
Public administration and safety[1]	**364**	412	**9,654**	8,099	**1,043**	794	**11,061**	9,305
Rental, hiring & real estate services	**32,293**	31,649	**235**	218	**3,461**	3,699	**35,989**	35,566
Professional, scientific, technical, administrative and support services	**1,179**	1,290	**9**	10	**633**	619	**1,821**	1,919
Households	**58,425**	54,765	**192**	180	**11,977**	11,878	**70,594**	66,823
All other New Zealand residents[2]	**2,574**	2,636	**167**	142	**1,663**	1,474	**4,404**	4,252
Subtotal	**126,576**	122,732	**16,674**	14,771	**29,716**	28,973	**172,966**	166,476
Overseas								
Finance and insurance services	**128**	123	**11,331**	13,137	**139**	155	**11,598**	13,415
Households	**1,563**	1,529	**5**	5	**-**	-	**1,568**	1,534
All other non-NZ residents	**851**	968	**85**	694	**-**	-	**936**	1,662
Subtotal	**2,542**	2,620	**11,421**	13,836	**139**	155	**14,102**	16,611
Gross subtotal	**129,118**	125,352	**28,095**	28,607	**29,855**	29,128	**187,068**	183,087
Provision for credit impairment	**(444)**	(502)	**-**	-	**(72)**	(84)	**(516)**	(586)
Subtotal	**128,674**	124,850	**28,095**	28,607	**29,783**	29,044	**186,552**	182,501
Unearned income	**(239)**	(222)	**-**	-	**-**	-	**(239)**	(222)
Capitalised brokerage / mortgage origination fees	**314**	336	**-**	-	**-**	-	**314**	336
Maximum exposure to credit risk	**128,749**	124,964	**28,095**	28,607	**29,783**	29,044	**186,627**	182,615

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

15. FINANCIAL RISK MANAGEMENT (continued)

COLLATERAL MANAGEMENT

We use collateral for on and off-balance sheet exposures to mitigate credit risk if a counterparty cannot meet its repayment obligations from its expected cashflows. For some products, the collateral provided by customers is fundamental to the product's structuring, so it is not strictly the secondary source of repayment - for example, lending secured by trade receivables is typically repaid by the collection of those receivables.

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

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

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

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Net loans and advances[1]	**128,749**	124,964	**119,539**	115,225	**9,210**	9,739
Other financial assets[1]	**28,095**	28,607	**2,029**	1,617	**26,066**	26,990
Off-balance sheet positions	**29,783**	29,044	**15,124**	14,526	**14,659**	14,518
Total	**186,627**	182,615	**136,692**	131,368	**49,935**	51,247

1 Including items reclassified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

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

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

Traded Market Risk	Non-Traded Market Risk
Risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Principal risk categories monitored are: 1. Currency risk – potential loss arising from changes in foreign exchange rates or their implied volatilities. 2. Interest rate risk – potential loss from changes in market interest rates or their implied volatilities. 3. Credit spread risk – potential loss arising from a movement in margin or spread relative to a benchmark. 4. Commodity risk – potential loss arising from changes in commodity prices or their implied volatilities. 5. Equity risk – potential loss arising from changes in equity prices.	Risk of loss associated with the management of non-traded interest rate risk, liquidity risk and foreign exchange exposures. This includes interest rate risk in the banking book. This risk of loss arises from adverse changes in the overall and relative level of interest rates for different tenors, differences in the actual versus expected net interest margin, and the potential valuation risk associated with embedded options in financial instruments and bank products.

MEASUREMENT OF MARKET RISK

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

VaR gauges ANZ New Zealand's possible daily loss based on historical market movements.

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

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

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

ANZ New Zealand measures VaR at a 99% confidence interval which means there is a 99% chance that a loss will not exceed the VaR on any given day.

15. FINANCIAL RISK MANAGEMENT (continued)

TRADED AND NON-TRADED MARKET RISK

Traded market risk

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

	30 September 2018				30 September 2017			
	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m
Traded value at risk 99% confidence								
Foreign exchange risk	0.5	1.6	0.2	0.7	0.1	1.2	0.1	0.4
Interest rate risk	1.4	3.6	0.8	1.9	3.0	5.8	1.3	2.5
Credit spread risk	0.5	0.8	0.3	0.5	0.6	0.8	0.4	0.6
Diversification benefit[1]	(1.0)	n/a	n/a	(0.9)	(0.9)	n/a	n/a	(0.9)
Total VaR	1.4	4.0	1.0	2.2	2.8	5.3	1.4	2.6

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

Non-traded market risk

Balance sheet risk management

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

Interest rate risk management

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

	30 September 2018				30 September 2017			
	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m
Non-traded value at risk 99% confidence								
Total VaR	8.0	10.2	6.4	7.8	8.3	10.2	7.3	8.2

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

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

	2018	2017
Impact of 1% rate shock		
As at period end	-0.4%	0.6%
Maximum exposure	0.9%	0.9%
Minimum exposure	-1.2%	-0.3%
Average exposure (in absolute terms)	-0.1%	0.4%

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

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

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Liquidity risk is the risk that ANZ New Zealand is either:

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

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

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

KEY AREAS OF MEASUREMENT FOR LIQUIDITY RISK

Supervision and regulation

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

Scenario modelling

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

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

As of 30 September 2018 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 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 is not required to issue large volumes of new wholesale funding within a short time period to replace maturing wholesale funding. Funding instruments used to meet the wholesale borrowing requirement must be on a pre-established list of approved products.

Funding capacity and debt issuance planning

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.

15. FINANCIAL RISK MANAGEMENT (continued)

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

	2018 NZ$m	2017 NZ$m
Cash and balances with central banks	2,026	2,102
Certificates of deposit	179	59
Central and local government bonds	7,528	6,609
Government treasury bills	794	775
Reserve Bank bills	50	-
Other bonds	5,493	6,390
Total liquidity portfolio	16,070	15,935

Assets held for managing liquidity risk include short term cash held with RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated NZ domestic corporates. These assets would be accepted as collateral by RBNZ in repurchase transactions. At 30 September 2018 ANZ New Zealand would be eligible to enter into repurchase transactions with a value of NZ$14,044 million. The Banking Group also held unencumbered internal residential mortgage backed securities (RMBS) which would entitle ANZ New Zealand to enter into repurchase transactions with a value of NZ$7,060 million at 30 September 2018.

Liquidity crisis contingency planning

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

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

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

FUNDING POSITION

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).

	Note	2018 NZ$m	2017 NZ$m
Funding composition			
Customer deposits[1]	13	104,055	96,829
Wholesale funding			
Debt issuances		24,534	23,997
Certificates of deposit and commercial paper		3,396	5,637
Other borrowings		5,469	6,586
Total wholesale funding		33,399	36,220
Total funding		137,454	133,049
Customer deposits by industry - New Zealand residents			
Agriculture, forestry and fishing		3,763	3,487
Manufacturing		2,335	2,024
Construction		2,050	1,851
Wholesale trade		1,571	1,433
Retail trade and accommodation		1,484	1,516
Financial and insurance services		10,661	8,996
Rental, hiring and real estate services		2,878	2,596
Professional, scientific, technical, administrative and support services		5,126	5,034
Public administration and safety		1,572	1,261
Arts, recreation and other services		2,027	1,928
Households		56,640	53,222
All other New Zealand residents[2]		3,556	3,483
		93,663	86,831
Customer deposits by industry - overseas			
Households		9,876	9,461
All other non-NZ residents		516	537
		10,392	9,998
Total customer deposits		104,055	96,829
Wholesale funding (financial and insurance services industry)			
New Zealand		7,084	7,120
Overseas		26,315	29,100
Total wholesale funding		33,399	36,220
Total funding		137,454	133,049
Concentrations of funding by geography			
New Zealand		100,747	93,951
Australia		6,040	7,649
United States		13,671	13,471
Europe		9,625	10,692
Other countries		7,371	7,286
Total funding		137,454	133,049

1 Including items reclassified as held for sale.

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

15. FINANCIAL RISK MANAGEMENT (continued)

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF FINANCIAL OF ANZ NEW ZEALAND'S LIABILITIES

The table below provides residual contractual maturity analysis of financial liabilities at 30 September 2018 within relevant maturity groupings. All outstanding debt issuances are profiled on the earliest date on which ANZ New Zealand may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reported on the balance sheet.

It should be noted that this is not how ANZ New Zealand manages its liquidity risk.

2018	On demand NZ$m	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
Settlement balances owed by ANZ New Zealand	1,338	742	-	-	-	2,080
Collateral received	-	845	-	-	-	845
Deposits and other borrowings[1]	52,016	26,063	30,010	5,843	1,186	115,118
Derivative financial liabilities (trading)	-	6,074	-	-	-	6,074
Debt issuances[2]	-	957	3,968	17,850	3,658	26,433
Other financial liabilities[1]	-	119	7	44	76	246
Derivative financial instruments (balance sheet management)						
- gross inflows	-	2,245	3,221	10,049	1,446	16,961
- gross outflows	-	(2,462)	(3,414)	(10,377)	(1,376)	(17,629)

2017	On demand NZ$m	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
Settlement balances owed by ANZ New Zealand	1,165	532	-	-	-	1,697
Collateral received	-	613	-	-	-	613
Deposits and other borrowings[1]	58,287	25,318	27,148	7,078	1,126	118,957
Derivative financial liabilities (trading)	-	7,999	-	-	-	7,999
Debt issuances[2]	-	1,608	3,247	16,496	4,537	25,888
Other financial liabilities[1]	-	188	6	56	144	394
Derivative financial instruments (balance sheet management)						
- gross inflows	-	2,557	3,286	10,669	3,093	19,605
- gross outflows	-	(2,739)	(3,417)	(10,711)	(2,785)	(19,652)

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

At 30 September 2018, NZ$93 million (2017: NZ$88 million) of ANZ New Zealand's non-credit related commitments and NZ$29,855 million (2017: NZ$29,128 million) of its credit related commitments and contingent liabilities mature in less than 1 year, based on the earliest date on which ANZ New Zealand may be required to pay.

NOTES TO THE FINANCIAL STATEMENTS

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

VALUATION OF FINANCIAL INSTRUMENTS

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

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

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

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

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

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

CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

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

		2018			2017		
	Fair value details refer to Note	At amortised cost NZ$m	At fair value NZ$m	Total NZ$m	At amortised cost NZ$m	At fair value NZ$m	Total NZ$m
Financial assets							
Cash and cash equivalents		2,407	-	2,407	2,338	-	2,338
Settlement balances owed to ANZ New Zealand		656	-	656	536	-	536
Collateral paid		1,919	-	1,919	1,415	-	1,415
Trading securities	8	-	8,024	8,024	-	7,663	7,663
Derivative financial instruments	9	-	8,072	8,072	-	9,749	9,749
Available-for-sale assets	10	-	6,502	6,502	-	6,360	6,360
Net loans and advances[1]		128,677	-	128,677	124,880	-	124,880
Other financial assets[1]		592	127	719	621	123	744
Total		134,251	22,725	156,976	129,790	23,895	153,685
Financial liabilities							
Settlement balances owed by ANZ New Zealand		2,066	-	2,066	1,687	-	1,687
Collateral received		845	-	845	613	-	613
Deposits and other borrowings[1]	13	110,434	2,486	112,920	105,331	3,721	109,052
Derivative financial instruments	9	-	8,133	8,133	-	9,894	9,894
Debt issuances		24,534	-	24,534	23,997	-	23,997
Other financial liabilities[1]		584	110	694	617	151	768
Total		138,463	10,729	149,192	132,245	13,766	146,011

[1] Including items reclassified as held for sale.

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

FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE ON THE BALANCE SHEET

ANZ New Zealand categorises financial assets and liabilities carried at fair value into a fair value hierarchy as required by NZ IFRS 13 based on the observability of inputs used to measure fair value:

- Level 1 – valuations based on quoted prices (unadjusted) in active markets for identical financial instruments;
- Level 2 – valuations using inputs other than quoted prices included within Level 1 that are observable for a similar financial asset or liability, either directly or indirectly; and
- Level 3 – valuations using inputs for the assets or liability that are not based on observable market data (unobservable inputs).

The table below summarises the attribution of financial instruments carried at fair value to the fair value hierarchy:

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Assets								
Trading securities	6,795	7,276	1,229	387	-	-	8,024	7,663
Derivative financial instruments	7	5	8,062	9,741	3	3	8,072	9,749
Available-for-sale assets	6,457	5,336	44	1,023	1	1	6,502	6,360
Investments backing insurance contract liabilities[1]	-	-	127	123	-	-	127	123
Total	13,259	12,617	9,462	11,274	4	4	22,725	23,895
Liabilities								
Deposits and other borrowings[1]	-	-	2,486	3,721	-	-	2,486	3,721
Derivative financial instruments	10	24	8,122	9,869	1	1	8,133	9,894
Other financial liabilities	110	151	-	-	-	-	110	151
Total	120	175	10,608	13,590	1	1	10,729	13,766

[1] Including items reclassified as held for sale.

Fair value designation

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

NOTES TO THE FINANCIAL STATEMENTS

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

The following sets out ANZ New Zealand's basis of estimating fair values of the above financial instruments carried at amortised cost:

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

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

	Carrying amount		Categorised into fair value hierarchy						Fair value (total)	
			Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)			
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Financial assets										
Net loans and advances[1, 2]	128,677	124,880	-	-	131	136	128,828	124,794	128,959	124,930
Total	128,677	124,880	-	-	131	136	128,828	124,794	128,959	124,930
Financial liabilities										
Deposits and other borrowings[1]	110,434	105,331	-	-	110,643	105,564	-	-	110,643	105,564
Debt issuances	24,534	23,997	3,606	3,927	21,118	20,333	-	-	24,724	24,260
Total	134,968	129,328	3,606	3,927	131,761	125,897	-	-	135,367	129,824

1 Including items reclassified as held for sale.

2 We have reviewed the fair value of Net Loans and advances previously presented as Level 2. In line with broader industry practice Net loans and advances other than Loans to Banks are now presented as Level 3.

KEY JUDGEMENTS AND ESTIMATES

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

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

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

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

The following disclosure excludes the amounts presented as collateral paid and received in the Balance Sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of those collateral agreements are included in the standard Credit Support Annex that forms part of the International Swaps and Derivatives Association Master Agreement.

ASSETS CHARGED AS SECURITY FOR LIABILITIES

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

- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements.
- UDC Secured Investments are secured by a security interest granted under a trust deed over all of UDC's present and future assets and undertakings, to Trustees Executors Limited, as supervisor. The assets subject to the security interest comprise mainly loans to UDC's customers and certain plant and equipment. The security interest secures all amounts payable by UDC on the UDC Secured Investments and all other monies payable by UDC under the trust deed.
- Specified residential mortgages provided as security for notes and bonds issued to investors as part of ANZ New Zealand's covered bond programmes.

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

	2018 NZ$m	2017 NZ$m
Securities sold under agreements to repurchase[1]	**517**	157
Assets pledged as collateral for UDC secured investments	**3,296**	2,985
Residential mortgages pledged as security for covered bonds	**10,747**	10,595

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

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

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

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

	2018 NZ$m	2017 NZ$m
Fair value of assets which can be sold or repledged	**139**	361
Fair value of assets sold or repledged	**34**	218

NOTES TO THE FINANCIAL STATEMENTS

18. OFFSETTING

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

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

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

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

			Amount subject to master netting agreement or similar			
2018	Total amounts recognised in the Balance Sheet NZ$m	Amounts not subject to master netting agreement or similar NZ$m	Total NZ$m	Financial instruments NZ$m	Financial collateral (received)/ pledged NZ$m	Net amount NZ$m
Derivative financial instruments	8,072	(1,043)	7,029	(5,637)	(527)	865
Reverse repurchase agreements[1]	136	-	136	-	(136)	-
Total financial assets	8,208	(1,043)	7,165	(5,637)	(663)	865
Derivative financial instruments	(8,133)	806	(7,327)	5,637	563	(1,127)
Repurchase agreements[2]	(517)	-	(517)	-	517	-
Total financial liabilities	(8,650)	806	(7,844)	5,637	1,080	(1,127)

			Amount subject to master netting agreement or similar			
2017	Total amounts recognised in the Balance Sheet NZ$m	Amounts not subject to master netting agreement or similar NZ$m	Total NZ$m	Financial instruments NZ$m	Financial collateral (received)/ pledged NZ$m	Net amount NZ$m
Derivative financial instruments	9,749	(1,940)	7,809	(7,411)	(245)	153
Reverse repurchase agreements[1]	360	-	360	-	(360)	-
Total financial assets	10,109	(1,940)	8,169	(7,411)	(605)	153
Derivative financial instruments	(9,894)	1,514	(8,380)	7,411	348	(621)
Repurchase agreements[2]	(157)	-	(157)	-	157	-
Total financial liabilities	(10,051)	1,514	(8,537)	7,411	505	(621)

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

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	Note	2018 NZ$m	2017 NZ$m
Goodwill		**3,230**	3,230
Software		**53**	67
Other intangibles		**107**	111
Goodwill and other intangible assets (including assets reclassified as held for sale)		**3,390**	3,408
Less: Goodwill and other intangible assets reclassified as held for sale	25	**(101)**	(133)
Goodwill and other intangible assets		**3,289**	3,275

GOODWILL ALLOCATED TO CASH-GENERATING UNITS (CGUs)

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

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

VALUE-IN-USE

These calculations use cash flow projections based on a number of financial budgets within each segment approved by management covering a three year period. Cash flow projections are based on a range of readily available economic assumptions including Gross Domestic Product (GDP) and the Consumer Price Index (CPI). Cash flows beyond the three year period are extrapolated using a 3% growth rate.

These cash flow projections are discounted using a capital asset pricing model. As at 28 February 2018 when the last valuation was prepared, a discount rate of 11.4% was applied to each cash generating unit. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each segment.

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

NOTES TO THE FINANCIAL STATEMENTS

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

RECOGNITION AND MEASUREMENT

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

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

KEY JUDGEMENTS AND ESTIMATES

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

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

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

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

20. SHAREHOLDERS' EQUITY

	Number of issued shares		NZ$ millions	
	2018	2017	2018	2017
Ordinary shares	378,155,112	378,155,112	1,450	1,450
Redeemable preference shares:				
Redeemable preference shares at beginning of the year	5,504,884,529	5,504,884,529	6,594	6,594
Redeemable preference shares issued	2,849,679,411	-	3,000	-
Redeemable preference shares at end of the year	8,354,563,940	5,504,884,529	9,594	6,594
Total share capital	8,732,719,052	5,883,039,641	11,044	8,044
NZ Branch initial head office account	-	-	11	11
Total share capital & initial head office account	8,732,719,052	5,883,039,641	11,055	8,055

Redeemable preference shares

All redeemable preference shares (RPS) were issued by ANZ Holdings (New Zealand) Limited to the Immediate Parent Company.

There are eight classes of RPS, relating to issues in 1988, 2005, 2007, 2008, 2009, 2014, 2015 and 2018. ANZ Holdings (New Zealand) Limited did not pay any dividends on RPS during the years ended 30 September 2018 and 30 September 2017.

RECOGNITION AND MEASUREMENT

Ordinary shares

Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Company, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to:

- on a show of hands, one vote; and
- on a poll, one vote, for each share held.

Redeemable Preference shares

Redeemable preference shares do not carry any voting rights and are redeemable by ANZ Holdings (New Zealand) Limited providing notice in writing to holders of the redeemable preference shares. Dividends are payable at the discretion of the Directors of ANZ Holdings (New Zealand) Limited and are non-cumulative.

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

Reserves:

Cash flow hedge reserve

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

Available-for-sale reserve

Includes the changes in fair value and exchange differences on our revaluation of available-for-sale financial assets, net of deferred taxes to be realised upon disposal of the asset.

NOTES TO THE FINANCIAL STATEMENTS

21. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

ANZ New Zealand's core capital objectives are to:

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

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

The Banking Group has minimum and trigger levels for capital that ensure sufficient capital is maintained to:

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

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

REGULATORY ENVIRONMENT

The Ultimate Parent Bank is a registered bank in New Zealand, and conducts business in New Zealand through the NZ Branch. While RBNZ requires the Ultimate Parent Bank to comply with the minimum capital adequacy requirements as administered by APRA, there are no regulatory capital requirements that apply specifically to the NZ Branch or ANZ New Zealand.

MANAGED CAPITAL

The Banking Group is subject to its own regulatory capital requirements as administered by RBNZ. The following table provides details of the capital of ANZ New Zealand which is managed outside the Banking Group.

	2018 NZ$m	2017 NZ$m
ANZ New Zealand shareholder's equity	11,236	11,313
Subordinated loan from the Ultimate Parent Bank used to purchase preference shares issued by the Bank	289	288
Borrowings from the Immediate Parent Company used to purchase ordinary shares issued by the Bank	1,766	1,766
less: Banking Group shareholder's equity	(13,109)	(12,781)
Capital of ANZ New Zealand managed outside the Banking Group	182	586
Total assets of ANZ New Zealand held outside the Banking Group	2,433	4,353
Ratio	7.5%	13.5%

22. CONTROLLED ENTITIES

	Nature of business
Australia and New Zealand Banking Group Limited (New Zealand Branch)	**Registered bank**
Principal subsidiaries	
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 23 Structured Entities.

2 Incorporated in Australia and registered in New Zealand as an Overseas ASIC Company.

RECOGNITION AND MEASUREMENT

ANZ New Zealand subsidiaries are those entities it controls through:

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

ANZ New Zealand assesses whether it has power over those entities by examining ANZ New Zealand's existing rights to direct the relevant activities of the entity.

NOTES TO THE FINANCIAL STATEMENTS

23. STRUCTURED ENTITIES

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

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

ANZ New Zealand is involved with both consolidated and unconsolidated SEs which may be established by ANZ New Zealand or by a third party. SEs are classified as subsidiaries and consolidated when control exists. If ANZ New Zealand does not control a SE, then it will not be consolidated (an unconsolidated SE). This note provides information on both consolidated and unconsolidated SEs.

ANZ New Zealand's involvement with SEs is as follows:

Type	Details
Securitisation	ANZ New Zealand uses the Kingfisher NZ Trust 2008-1 (the Kingfisher Trust) to securitise residential mortgages that it has originated, in order to diversify sources of funding for liquidity management. The Kingfisher Trust is an internal securitisation (bankruptcy remote) vehicle we created for the purpose of structuring assets that are eligible for repurchase under agreements with RBNZ (these are known as 'Repo eligible'). ANZ New Zealand is exposed to variable returns from its involvement with the Kingfisher Trust and has the ability to affect those returns through its power over the Kingfisher Trust's activities. The Kingfisher Trust is therefore consolidated. As at 30 September 2018 and 30 September 2017 ANZ New Zealand had not entered into any repurchase agreements with RBNZ for residential mortgage backed securities issued and therefore no collateral had been accepted by RBNZ under this facility. Additionally, ANZ New Zealand may acquire interests in securitisation vehicles set up by third parties through providing lending facilities to, or holding securities issued by, such entities.
ANZNZ Covered Bond Trust (the Covered Bond Trust)	Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied. ANZ New Zealand is exposed to variable returns from its involvement with the Covered Bond Trust and has the ability to affect those returns through its power over the Covered Bond Trust's activities. The Covered Bond Trust is therefore consolidated.
Structured finance arrangements	ANZ New Zealand is involved with SEs established: • in connection with structured lending transactions to facilitate debt syndication and/or to ring-fence collateral; and • to own assets that are leased to customers in structured leasing transactions. ANZ New Zealand may provide risk management products (derivatives) to the SE. In all instances, ANZ New Zealand does not control these SEs. Further, ANZ New Zealand's involvement does not establish more than a passive interest in decisions about the relevant activities of the SE, and accordingly we do not consider that interest disclosable.
Funds management activities	ANZ New Zealand is the scheme manager for a number of Managed Investment Schemes (MIS). These MIS include the ANZ and OneAnswer branded KiwiSaver, retail and wholesale schemes and the Bonus Bonds Scheme, and are considered to be SEs.

CONSOLIDATED STRUCTURED ENTITIES

Financial or Other Support Provided to Consolidated Structured Entities

The Bank provides lending facilities, derivatives and commitments to the Kingfisher Trust and the Covered Bond Trust and/or holds debt instruments that they have issued. The Bank did not provide any non-contractual support to consolidated SEs during the year (2017: nil).

23. STRUCTURED ENTITIES (continued)

UNCONSOLIDATED STRUCTURED ENTITIES

ANZ New Zealand's Interest in Unconsolidated Structured Entities

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

For the purpose of disclosing interests in unconsolidated SEs:

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

ANZ New Zealand earned funds management fees from its MIS of NZ$191 million (2017: NZ$170 million) during the year. Size of these MIS is indicated by Funds Under Management which varies by fund, with a maximum value of approximately NZ$3.3 billion (2017: NZ$3.4 billion).

ANZ New Zealand did not provide any non-contractual support to unconsolidated SEs during the year (2017: nil): nor does it have any current intention to provide financial or other support to unconsolidated SEs.

SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES

ANZ New Zealand may also sponsor unconsolidated SEs in which it has no disclosable interest.

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

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

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

KEY JUDGEMENTS AND ESTIMATES

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

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

24. TRANSFERS OF FINANCIAL ASSETS

In the normal course of business ANZ New Zealand enters into transactions where it transfers financial assets directly to third parties. 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.

Covered bonds

ANZ New Zealand operates a covered bond programme to raise funding. Refer to Note 23 Structured Entities for further details. The covered bonds issued externally are included within debt issuances.

NOTES TO THE FINANCIAL STATEMENTS

24. TRANSFERS OF FINANCIAL ASSETS (continued)

Repurchase agreements

If ANZ New Zealand sells securities subject to repurchase agreements under which substantially all the risks and rewards of ownership remain with ANZ New Zealand, then those assets are considered to be transferred assets that do not qualify for derecognition. An associated liability is recognised for the consideration received from the counterparty.

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

	Covered bonds		Repurchase agreements	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Current carrying amount of assets transferred	**10,747**	10,595	**517**	157
Carrying amount of associated liabilities	**3,929**	5,315	**517**	157

25. ASSETS AND LIABILITIES HELD FOR SALE

UDC

On 11 January 2017, the Bank announced that it had entered into a conditional agreement to sell UDC to HNA Group (HNA). On 21 December 2017, the Bank announced that it had been informed that the New Zealand Overseas Investment Office had declined HNA's application to acquire UDC and the agreement with HNA was terminated in January 2018. The assets and liabilities of UDC are no longer classified as held for sale as at 30 September 2018.

OnePath

On 30 May 2018, the Bank announced that it had agreed to sell OnePath to Cigna Corporation and the final regulatory approval was obtained on 29 October 2018. The transaction is subject to closing conditions and the Bank expects it to close in the 2019 financial year.

	2018 OnePath NZ$m	2017 UDC NZ$m
Net loans and advances	-	2,912
Life insurance contract assets	**662**	-
Goodwill and other intangible assets	**101**	133
Investments backing insurance contract liabilities	**127**	-
Other assets	**7**	20
Total assets held for sale	**897**	3,065
Deposits and other borrowings	-	1,039
Current tax liabilities	**16**	24
Deferred tax liabilities	**175**	(9)
Payables and other liabilities	**143**	33
Employee entitlements	-	1
Total liabilities held for sale	**334**	1,088

KEY JUDGEMENTS AND ESTIMATES

A significant level of judgement is used by ANZ New Zealand to determine:

- whether an asset or group of assets is classified and presented as held for sale or as a discontinued operation; and
- the fair value of the assets and liabilities classified as being held for sale.

Any impairment we record is based on the best available evidence of the fair value compared to the carrying value before the impairment. The final sale price ANZ New Zealand may achieve will depend on a number of factors and may be different to the fair value we estimate when recording the impairment. We expect that the sales will complete within 12 months after balance date, subject to the relevant regulatory approvals and customary terms of sale for such assets.

26. RELATED PARTY DISCLOSURES

Key management personnel

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

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

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

	2018 NZ$000	2017 NZ$000
Key management personnel compensation		
Salaries and short-term employee benefits	11,677	11,430
Post-employment benefits	655	480
Other long-term benefits	38	60
Share-based payments	3,308	3,515
Total	15,678	15,485
Loans to, and securities held by, key management personnel and their related parties		
Loans	19,381	15,326
Unsubordinated debt	-	520
Subordinated debt	125	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

	2018 NZ$m	2017 NZ$m
Ultimate Parent Bank and subsidiaries not part of ANZ New Zealand		
Interest income	3	2
Interest expense	180	225
Other operating income	43	23
Operating expenses	52	46
NZ Branch retained earnings repatriated	450	-
Immediate Parent Company		
Interest expense	45	49
Preference shares issued	3,000	-
Dividends paid	4,600	1,635
Associates		
Direct fee expense	10	10
Dividends received	6	5
Share of associates' profit	5	5

NOTES TO THE FINANCIAL STATEMENTS

26. RELATED PARTY DISCLOSURES (continued)

Balances with related parties

	2018 NZ$m	2017 NZ$m
Ultimate Parent Bank and subsidiaries not part of ANZ New Zealand		
Cash and cash equivalents	240	64
Settlement balances owed to ANZ New Zealand	-	111
Derivative financial instruments	2,416	2,498
Other assets	39	42
Associates		
Investments in associates	6	7
Total due from related parties	2,701	2,722
Ultimate Parent Bank and subsidiaries not part of ANZ New Zealand		
Settlement balances owed by ANZ New Zealand	30	67
Collateral received	257	198
Deposits and other borrowings	3,186	4,663
Derivative financial instruments	2,285	2,553
Payables and other liabilities	33	36
Subordinated debt	289	299
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	7,851	9,587

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

	2018 NZ$m	2017 NZ$m
Financial guarantees provided to the Ultimate Parent Bank	138	155

27. COMMITMENTS AND CONTINGENT LIABILITIES

PROPERTY RELATED COMMITMENTS

	2018 NZ$m	2017 NZ$m
Property capital expenditure		
Contracts for outstanding capital expenditure (not later than 1 year)	7	4
Total capital expenditure commitments for property	7	4
Lease rentals		
Land and Buildings	331	370
Furniture and equipment	86	105
Motor vehicles	8	9
Total lease rental commitments	425	484
Due within 1 year	86	84
Due later than 1 year but not later than 5 years	224	256
Due later than 5 years	115	144
Total lease rental commitments	425	484

27. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2018 NZ$m	2017 NZ$m
Contract amount of:		
Undrawn facilities	**26,995**	26,520
Guarantees and letters of credit	**1,531**	1,010
Performance related contingencies	**1,329**	1,598
Total	**29,855**	29,128

UNDRAWN FACILITIES

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be only partially used, and others may never be used at all. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements. Based on the earliest date on which ANZ New Zealand may be required to pay, the total undrawn facilities of NZ$26,995 million (2017: NZ$26,520 million) mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE RELATED CONTINGENCIES

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

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

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

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply to loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Based on the earliest date on which ANZ New Zealand may be required to pay, the total guarantees and letters of credit of NZ$1,531 million (2017: NZ$1,010 million) and total performance related contingencies of NZ$1,329 million (2017: NZ$1,598 million) mature within 12 months.

OTHER CONTINGENT LIABILITIES

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

In recent years there has been an increase in the number of matters on which ANZ New Zealand engages with its regulators. Globally there have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators and customer claims. ANZ New Zealand also instigates engagement with its regulators. The nature of these investigations and reviews can be wide-ranging and, for example, may include a range of matters including responsible lending practices, product suitability, wealth advice and adequacy of product disclosure documentation. ANZ New Zealand has received various notices and requests for information from its regulators as part of both industry-wide and ANZ New Zealand specific reviews, and has also made disclosures to its regulators at its own instigation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

NOTES TO THE FINANCIAL STATEMENTS

28. COMPENSATION OF AUDITORS

	2018 NZ$000	2017 NZ$000
KPMG New Zealand		
Audit or review of financial statements[1]	2,273	2,309
Audit related services:		
Prudential and regulatory services[2]	212	225
Offer documents assurance or review	104	146
Other assurance services[3]	36	95
Total audit related services	352	466
Total compensation of auditors relating to ANZ New Zealand	2,625	2,775
Fees relating to certain managed funds and not recharged[4]	45	46
Total compensation of auditors	2,670	2,821

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

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

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REGISTERED BANK DISCLOSURES

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

B1. GENERAL DISCLOSURES

Details of registered bank, ultimate parent bank and ultimate holding company

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

Subordination of claims of creditors

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 or 16AIC 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 2018, amounted to NZ$1,082m (2017: NZ$1,069m).

Requirement to maintain sufficient assets to cover ongoing obligation to pay 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. This requirement has the potential to impact on the management of the liquidity of the NZ Branch.

APRA’s powers

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

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.

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.

On 5 March 2018, the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018 (the Crisis Management Act) came into effect. The Crisis Management Act amends the Banking Act (among other statutes applicable to financial institutions in Australia) and is intended to enhance APRA’s powers. Specifically, the Crisis Management Act enhances APRA’s powers to facilitate resolution of the entities it regulates (and their subsidiaries) in times of distress. Additional powers which could impact the Overseas Banking Group include greater oversight, management and directions powers in relation to the Ultimate Parent Bank and other Overseas Banking Group entities which were previously not regulated by APRA, increased statutory management powers over regulated entities within the Overseas Banking Group and changes which are designed to give statutory recognition to the conversion or write-off of regulatory capital instruments.

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.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

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

Effect of APRA's Prudential Standards

APRA Prudential Standard APS 222 *Associations with Related Entities* (APS222) sets minimum requirements for ADIs, including the Ultimate Parent Bank, in relation to the monitoring, management and control of risks which arise from associations with related entities and also includes prudential limits on intra-group exposures.

Under APS222, the Ultimate Parent Bank's ability to provide financial support to the Bank is subject to certain restrictions:

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

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

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

In July 2018, APRA released a consultation paper and draft prudential standards on proposed revisions to APS222, which also incorporated changes to its large exposures framework published in December 2017. APRA's proposals include revisions to the prudential limits on exposures to related entities. APRA is proposing to align the capital base used in limit calculations to Level 1 Tier 1 Capital (capital base used in the revised large exposures framework) and to reduce the individual and aggregate limits of exposures to individual related ADIs. APRA is currently consulting on the proposed changes, taking into account submissions already received from the Ultimate Parent Bank and the industry. The impact on the Overseas Banking Group (including ANZ New Zealand) arising from the above consultation will not be known until APRA finalises its review. APRA intends to have the revised APS222 framework implemented by 1 January 2020.

Effect of the Level 3 framework

Under APRA's Level 3 Conglomerates regulations, the Ultimate Parent Bank must limit its financial and operational exposures to its subsidiaries (including the Bank). These requirements are not expected to place additional restrictions on the Ultimate Parent Bank's ability to provide financial or operational support to the Bank.

Other APRA powers

The Ultimate Parent Bank may not provide financial support in breach of the Banking Act, as described under 'APRA's powers' above.

Guarantees

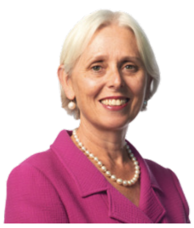
No material obligations of the NZ Branch are guaranteed as at 15 November 2018.

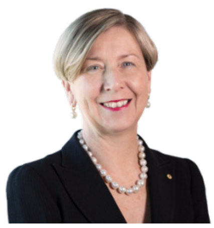
B1. GENERAL DISCLOSURES (continued)

Directors, New Zealand Chief Executive Officer and Responsible Person

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 – NZ Branch as applicable.

	David Gonski, AC	Shayne Elliott	Ilana Atlas
Position	Chairman and Director	Chief Executive Officer and Director	Director
Occupation	Company Director	Chief Executive Officer – Australia and New Zealand Banking Group	Company Director
Qualifications	BCom, LLB, FAICD(Life), FCPA	BCom	BJuris (Hons), LLB (Hons), LLM
Resides	Sydney, Australia	Melbourne, Australia	Sydney, Australia
Executive	No	Yes	No
Independent	Yes	No	Yes
Other company directorships	The University of New South Wales Foundation Ltd, Sydney Airport Corporation Ltd, Lowy Institute for International Policy, Australian Philanthropic Services Ltd	Financial Markets Foundation for Children	Coca-Cola Amatil Ltd, OneMarket Ltd





	Paula Dwyer	Jane Halton, AO, PSM	Lee Hsien Yang
Position	Director	Director	Director
Occupation	Company Director	Company Director	Company Director
Qualifications	BCom, FCA, SF Fin, FAICD	BA (Hons) Psychology, FIML, FIPAA, NAM, Hon. FAAHMS, Hons. FACHSE, Hon. DLitt (UNSW)	MSc, BA
Resides	Melbourne, Australia	Canberra, Australia	Singapore
Executive	No	No	No
Independent	Yes	Yes	Yes
Other company directorships	Tabcorp Holdings Ltd, Healthscope Ltd, Lion Pty Ltd	Vault Systems, Clayton Utz, Crown Resorts Ltd	The Islamic Bank of Asia Ltd, Cluny Lodge Pte Ltd, Caldecott Inc., Rolls-Royce Holdings plc

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)



	Rt Hon Sir John Key, GNZM AC	Graeme Liebelt	John Macfarlane
Position	Director	Director	Director
Occupation	Company Director	Company Director	Company Director
Qualifications	BCom, DCom (Honoris Causa)	BEc (Hons), FAICD, FTSE, FIML	BCom, MCom (Hons)
Resides	Auckland, New Zealand	Melbourne, Australia	Melbourne, Australia
Executive	No	No	No
Independent	Yes	Yes	Yes
Other company directorships	Air New Zealand Ltd, Thirty Eight JK Ltd	Amcor Ltd, Australian Foundation Investment Company Ltd, Carey Baptist Grammar School, DuluxGroup Ltd	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 Boundary Ltd, The Kowhais Ltd, Balmoral Pastoral Investments Pty Ltd, L1 Long Short Fund


	Penny Dell	David Hisco
Position	Chief Executive Officer – NZ Branch	Responsible Person[1]
Occupation	Chief Executive Officer, Australia and New Zealand Banking Group – New Zealand Branch	Chief Executive Officer New Zealand and Group Executive
Qualifications	BCA	BBus, MBA
Resides	Wellington, New Zealand	Auckland, New Zealand
Other company directorships	None	n/a

[1] Authorised in writing by the directors to sign the Disclosure Statement in accordance with section 82 of the Reserve Bank Act 1989.

Transactions with Directors

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 Audit Committee

There is a board Audit Committee which covers audit matters. The committee comprises five directors, all of whom are independent directors.

B1. GENERAL DISCLOSURES (continued)

Policy of the board of directors for avoiding or dealing with conflicts of interest

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 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.

Auditors

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

Conditions of registration

The following conditions of registration were applicable as at 30 September 2018, and have applied from 1 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.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

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:-

   “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.

Pending proceedings or arbitration

A description of any pending legal proceedings or arbitration concerning any member of ANZ New Zealand that may have a material adverse effect on the NZ Branch or ANZ New Zealand is included in Note 27 Commitments and Contingent Liabilities.

Credit rating

As at 15 November 2018 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	Credit Rating	Qualification
S&P Global Ratings	AA-	Outlook Negative
Fitch Ratings	AA-	Outlook Stable
Moody’s Investors Service	Aa3	Outlook Stable

The following table describes the credit rating grades available:

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

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

B1. GENERAL DISCLOSURES (continued)

Historical summary of financial statements

Income Statement	2018 NZ$m	2017 NZ$m	2016 NZ$m	2015 NZ$m	2014 NZ$m
Interest income	6,550	6,434	6,770	7,417	6,799
Interest expense	(3,373)	(3,356)	(3,741)	(4,537)	(4,034)
Net interest income	3,177	3,078	3,029	2,880	2,765
Non-interest income	1,143	916	832	1,157	1,063
Operating income	4,320	3,994	3,861	4,037	3,828
Operating expenses	(1,517)	(1,469)	(1,600)	(1,513)	(1,490)
Credit impairment (charge) / release	(53)	(60)	(147)	(76)	9
Profit before income tax	2,750	2,465	2,114	2,448	2,347
Income tax expense	(764)	(685)	(572)	(677)	(636)
Profit after income tax	1,986	1,780	1,542	1,771	1,711
Dividends paid	(4,600)	(1,635)	(1,320)	(1,630)	(2,335)
NZ Branch retained earnings repatriated	(450)	-	-	-	-
Share capital issued	3,000	-	-	665	969
Balance Sheet					
Total assets	161,416	158,185	166,706	155,530	138,528
Total individually impaired assets	323	361	433	404	668
Total liabilities	150,180	146,872	155,539	144,670	128,447
Equity & head office account	11,236	11,313	11,167	10,860	10,081

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

Directors' and New Zealand Chief Executive Officer's statements

The Directors' and New Zealand Chief Executive Officer's statement is included on page 74.

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 shareholder.anz.com.

Auditor's report

The auditor's report is included on page 75.

Index

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

REGISTERED BANK DISCLOSURES

B2. ADDITIONAL FINANCIAL DISCLOSURES

Additional information on the balance sheet

	2018 NZ$m	2017 NZ$m
Total interest earning and discount bearing assets	147,740	143,141
Total interest and discount bearing liabilities	128,934	125,561
Total liabilities of the NZ Branch less amounts due to related entities	1,082	1,069

Additional information on interest rate sensitivity

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.

2018	Total NZ$m	Up to 3 months NZ$m	Over 3 to 6 months NZ$m	Over 6 to 12 months NZ$m	Over 1 to 2 years NZ$m	Over 2 years NZ$m	Not bearing interest NZ$m
Assets							
Cash and cash equivalents	2,407	2,120	-	-	-	-	287
Settlement balances owed to ANZ New Zealand	656	-	-	-	-	-	656
Collateral paid	1,919	1,919	-	-	-	-	-
Trading securities	8,024	873	405	492	1,373	4,881	-
Derivative financial instruments	8,072	-	-	-	-	-	8,072
Available-for-sale assets	6,502	338	699	42	1,351	4,071	1
Net loans and advances[1]	128,677	63,847	10,673	24,404	21,253	8,872	(372)
Other financial assets[1]	719	62	55	8	-	2	592
Total financial assets	156,976	69,159	11,832	24,946	23,977	17,826	9,236
Liabilities							
Settlement balances owed by ANZ New Zealand	2,066	750	-	-	-	-	1,316
Collateral received	845	845	-	-	-	-	-
Deposits and other borrowings[1]	112,920	71,986	12,924	12,444	3,043	2,299	10,224
Derivative financial instruments	8,133	-	-	-	-	-	8,133
Debt issuances	24,534	3,041	3,383	757	3,782	13,571	-
Other financial liabilities[1]	694	109	-	-	-	-	585
Total financial liabilities	149,192	76,731	16,307	13,201	6,825	15,870	20,258
Hedging instruments	-	14,822	1,228	(14,697)	(9,559)	8,206	-
Interest sensitivity gap	7,784	7,250	(3,247)	(2,952)	7,593	10,162	(11,022)

[1] Including items reclassified as held for sale

Overseas Banking Group Profitability and Size

	2018
Net Profit for the year ended 30 September 2018 (AUDm)[1]	6,416
Net profit after tax for the year ended 30 September 2018 as a percentage of average total assets	0.68%
Total assets (AUDm)	942,624
Percentage change in total assets in the 12 months to 30 September 2018	5.05%

[1] Net profit after tax for the year includes AUD 16 million of profit attributable to non-controlling interests.

Reconciliation of mortgage related amounts

As at 30 September 2018	Note	NZ$m
Term loans - housing[1]	11	80,609
Less: fair value hedging adjustment		(13)
Less: housing loans made to corporate customers		(2,226)
On-balance sheet residential mortgage exposures	B4	78,370
Add: off-balance sheet residential mortgage exposures	B4	8,232
Total residential mortgage exposures as per LVR analysis	B4	86,602

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

B3. ASSET QUALITY

Past due assets

Amounts of assets past due but not impaired are included on page 31.

Movement in individually impaired assets

	2018 NZ$m	2017 NZ$m
Balance at beginning of the period	361	433
Additions	398	573
Amounts written off	(149)	(133)
Deletions	(287)	(512)
Balance at end of the period	323	361
Individual provision	132	154

Movement in balances of individual credit impairment allowances

	2018 NZ$m	2017 NZ$m
Balance at beginning of the period	154	154
Individual credit impairment charge / (release)		
New and increased provisions	214	234
Write-backs	(83)	(97)
Recoveries of amounts previously written off	(30)	(31)
Individual credit impairment charge / (release)	101	106
Bad debts written off	(149)	(133)
Add back recoveries of amounts previously written off	30	31
Discount unwind	(4)	(4)
Balance at end of the period	132	154

Movements in balance of collective credit impairment allowance

Information on movements in the balance of the collective credit impairment allowance over the full year accounting period is included on page 23.

Asset quality for financial assets designated at fair value

ANZ New Zealand does not have any loans and advances designated at fair value through profit or loss.

Other asset quality information

	2018 NZ$m	2017 NZ$m
Undrawn facilities with impaired customers	14	6
Other assets under administration	10	11

Overseas Banking Group asset quality

As at 30 September 2018	
Gross impaired assets (AUDm)	2,013
Gross impaired assets as a percentage of total assets	0.2%
Individual provision (AUDm)	920
Individual provision as a percentage of gross impaired assets	45.7%
Collective provision (AUDm)	2,523

REGISTERED BANK DISCLOSURES

B4. CREDIT AND MARKET RISK EXPOSURES AND CAPITAL ADEQUACY (UNAUDITED)

APRA Basel III capital ratios

	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
Unaudited	2018	2017	2018	2017
Common equity tier 1 capital	11.4%	10.6%	11.6%	10.5%
Tier 1 capital	13.4%	12.6%	13.6%	12.7%
Total capital	15.2%	14.8%	15.6%	14.8%

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 2018 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2018. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 30 September 2018, in accordance with APS 330: *Public Disclosure of Prudential Information*, discloses capital adequacy ratios and other prudential information. This document can be accessed at the website anz.com.

Market risk

ANZ New Zealand's aggregate market risk exposures below have been calculated in accordance with the RBNZ document BS2A. The peak end-of-day market risk exposures are for the six months ended 30 September 2018.

	Implied risk weighted exposure		Notional capital charge	
As at 30 September 2018	Period end NZ$m	Peak NZ$m	Period end NZ$m	Peak NZ$m
Interest rate risk	4,670	5,782	374	463
Foreign currency risk	43	153	3	12
Equity risk	1	1	-	-
	4,714		377	

Additional mortgage information

As required by RBNZ, loan-to-valuation-ratios (LVR) are calculated as the current exposure secured by a residential mortgage divided by 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.

As at 30 September 2018	On-balance sheet NZ$m	Off-balance sheet NZ$m	Total NZ$m
LVR range			
Does not exceed 60%	38,841	5,565	44,406
Exceeds 60% and not 70%	17,748	1,320	19,068
Exceeds 70% and not 80%	17,754	1,035	18,789
Does not exceed 80%	74,343	7,920	82,263
Exceeds 80% and not 90%	2,745	131	2,876
Exceeds 90%	1,282	181	1,463
Total	78,370	8,232	86,602

B5. INSURANCE BUSINESS, SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITES AND MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS

Insurance business

ANZ New Zealand conducts insurance business through its subsidiary OnePath. ANZ New Zealand's aggregate amount of insurance business comprises the total consolidated assets of OnePath of NZ$940 million (2017: NZ$921 million), which is 0.6% (2017: 0.6%) of the total consolidated assets of ANZ New Zealand.

Non-consolidated insurance and non-financial activities

The Ultimate Parent Bank does not carry on any insurance business or non-financial activities in New Zealand that are outside ANZ New Zealand.

ANZ New Zealand's involvement in securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products

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

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

b) ANZ New Zealand's involvement in the origination of securitised assets, and the marketing or servicing of securitisation schemes

ANZ New Zealand originates securitised assets in the form of residential mortgage backed securities held for potential repurchase transactions with the RBNZ, and covered bonds. Refer to Note 23 Structured Entities for further details on these programmes. Other than these activities, ANZ New Zealand is not involved in the marketing or servicing of securitisation schemes.

c) ANZ New Zealand's involvement in marketing and distribution of insurance products

ANZ New Zealand markets and distributes life insurance products provided by OnePath.

ANZ New Zealand also markets and distributes other personal and business insurance products provided by or arranged through a number of other insurance partners. None of these other insurance partners are affiliated insurance entities or affiliated insurance groups.

Arrangements to ensure no adverse impacts arising from the above activities

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

REGISTERED BANK DISCLOSURES

B5. INSURANCE BUSINESS, SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITES AND MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS (continued)

Amounts represented by funds management and securitisation activities

	2018 NZ$m	2017 NZ$m
Funds under management:		
KiwiSaver[1]	12,923	11,047
Bonus Bonds Scheme[2]	3,300	3,405
Other managed funds[1]	2,261	1,984
ANZ PIE Fund[2]	1,656	1,381
Discretionary Investment Management Service (DIMS)[3]	7,678	7,193
Other investment portfolios[1]	2,847	3,480
Total funds under management	30,665	28,490
Funds under custodial arrangements[4]	7,970	7,951
Other funds held or managed subject to fiduciary responsibilities[5]	1,270	1,325
Outstanding securitised assets originated by ANZ New Zealand - carrying amount of Covered Bonds	3,929	5,315

1 Managed by ANZ New Zealand Investments Limited.
2 Managed by ANZ Investment Services (New Zealand) Limited.
3 Managed by the Bank.
4 Includes NZ$60 million (2017: NZ$370 million) held in custody by ANZ New Zealand Securities Nominees Limited which are not included in funds under management. All other funds held in custody are included in funds under management.
5 Not included in funds under management.

B6. RISK MANAGEMENT POLICIES

Information about risk

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

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

The key pillars of ANZ New Zealand's risk management framework include:

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

The material risks facing per ANZ New Zealand's RMS, and how these risks are managed are summarised below:

Key material risks

Risk Type	Description	Management of Risks
Capital Adequacy Risk	The risk of loss arising from ANZ New Zealand failing to maintain the level of capital required by prudential regulators and other key stakeholders (shareholders, debt investors, depositors, rating agencies, etc.) to support ANZ New Zealand's consolidated operations and risk appetite.	ANZ New Zealand pursues an active approach to Capital Management through ongoing review, and Board approval, of the level and composition of ANZ New Zealand's capital base against key policy objectives.
Compliance Risk	The probability and impact of an event that results in a breach of any of the following that apply to ANZ New Zealand's businesses: laws, regulations, industry standards, codes, internal policies, internal procedures, or principles of good governance.	Key features of our Compliance Risk framework include centralised management of key obligations, and emphasis on identifying changes in regulations and the business environment, so as to enable us to: • proactively assess emerging compliance risks; and • implement robust reporting and certification processes.
Credit Risk	The risk of financial loss resulting from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in a financial loss. Credit Risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies.	Our Credit Risk framework is top down, being defined by credit principles and policies. Credit policies, requirements and procedures cover all aspects of the credit life cycle - for example: transaction structuring, risk grading, initial approval, ongoing management and problem debt management, as well as specialist policy topics.
Liquidity and Funding Risk	The risk that ANZ New Zealand is unable to meet its payment obligations as they fall due, including: • repaying depositors or maturing wholesale debt; or • ANZ New Zealand having insufficient capacity to fund increases in assets.	Key principles in managing our Liquidity and Funding Risk include: • maintaining ANZ New Zealand's ability to meet liquidity 'survival horizons' under a range of stress scenarios to meet cash flow obligations over a short to medium term horizon; • maintaining a strong structural funding profile; and • maintaining a portfolio of high-quality liquid assets to act as a source of liquidity in times of stress.

REGISTERED BANK DISCLOSURES

B6. RISK MANAGEMENT POLICIES (continued)

Risk Type	Description	Management of Risks
Market Risk	The risk to ANZ New Zealand's earnings arising from: • changes in any interest rates, foreign exchange rates, credit spreads, volatility, and correlations; or • from fluctuations in bond, commodity or equity prices.	Our risk management and control framework for Market Risk involves us quantifying the magnitude of market risk within the trading and balance sheet portfolios through independent risk measurement. First, we identify the range of possible outcomes, the likely timeframe, and the likelihood of the outcome occurring. Then we allocate an appropriate amount of capital to support these activities.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational Risk: • includes technology risk, cyber risk, legal risk and conduct risk, and damage arising from inadequate or failed internal processes, people and systems; but • excludes Strategic Risk.	ANZ New Zealand operates a three-lines-of-defence model to manage Operational Risk, with each line of defence having defined roles, responsibilities and escalation paths to support effective two-way communication and effective management of our operational risk. Also, we have ongoing review mechanisms to ensure our Operational Risk framework continues to meet organisational needs and regulatory requirements.
Reputation Risk	The risk of loss that directly or indirectly impacts earnings, capital adequacy or value, that is caused by: • adverse perceptions of ANZ New Zealand held by any of customers, the community, shareholders, investors, regulators, or rating agencies; • conduct risk associated with ANZ New Zealand's employees or contractors (or both); or • the social or environmental (or both) impacts of our lending decisions.	We manage Reputation Risk by maintaining a positive and dynamic culture that: • ensures we act with integrity; and • enables us to build strong and trusted relationships with customers and clients, with colleagues, and with the broader society. We have well established decision-making frameworks and policies to ensure our business decisions are guided by sound social and environmental standards that take into account Reputation Risk.
Strategic Risk	The risk that ANZ New Zealand's business strategy and strategic objectives may lead to an increase in other key Material Risks - for example: Credit Risk, Market Risk and Operational Risk.	We consider and manage Strategic Risks through our annual strategic planning process, managed by the Executive Committee and approved by the Board. Any increase to our key Material Risks is managed in accordance with the risk management practices specified above.

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

Reviews of ANZ New Zealand's risk management systems

Refer to Note 15 Financial Risk Management for details of the Internal audit Functions reviews of ANZ New Zealand's RMF. These reviews are not conducted by a party external to ANZ New Zealand, the Overseas Banking Group, or the Ultimate Parent Bank.

B6. RISK MANAGEMENT POLICIES (continued)

Internal Audit Function of ANZ New Zealand

Refer to Note 15 Financial Risk Management for details of the Internal Audit Function.

The nature and scope of the responsibilities of the Bank's Audit Committee responsibilities, to which Internal Audit reports, are to assist the Bank's Board of Directors by providing oversight and review of:

- ANZ New Zealand's financial reporting principles and policies, controls, systems and procedures;
- the effectiveness of ANZ New Zealand's internal control and risk management framework;
- the work and internal audit standards of Internal Audit which reports directly and solely to the Chair of the Bank's Audit Committee;
- the integrity of ANZ New Zealand's financial statements and the independent audit thereof, and ANZ New Zealand's compliance with legal and regulatory requirements in relation thereto;
- any due diligence procedures;
- prudential supervision procedures and other regulatory requirements to the extent relating to financial reporting; and
- any other matters referred to it by the Bank's Board.

The Bank's Audit Committee is also responsible for:

- the appointment, annual evaluation and oversight of the external auditor;
- annual review of the independence, fitness and propriety, and qualifications of the external auditor;
- compensation of the external auditor; and
- where deemed appropriate, replacement of the external auditor.

In carrying out its responsibilities and duties, the Bank's Audit Committee will aim to seek fair customer outcomes and financial market integrity in its deliberations.

Access to parental disclosures

Disclosures made by the Ultimate Parent Bank in relation to capital adequacy requirements and risk management processes implemented by the Ultimate Parent Bank are included in the Ultimate Parent Bank's Annual Report and APS 330 Basel III Pillar 3 Capital Disclosures documents which can be accessed at the website shareholder.anz.com.

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; and
- The Disclosure Statement is not false or misleading.

Over the year ended 30 September 2018, 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; and
- 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.

Signed by the Chief Executive Officer – NZ Branch

Penny Dell
Chief Executive Officer – NZ Branch
15 November 2018

Signed on behalf of all the Directors of the Ultimate Parent Bank

David Hisco
Responsible Person
15 November 2018

on behalf of the Directors of the Ultimate Parent Bank:
Ilana Atlas
Paula Dwyer
Shayne Elliott
David Gonski, AC
Jane Halton, AO, PSM
Lee Hsien Yang
Rt Hon Sir John Key, GNZM AC
Graeme Liebelt
John Macfarlane

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 of Australia and New Zealand Banking Group Limited - ANZ Bank New Zealand and its related entities (ANZ New Zealand) on pages 4 to 56:

- give a true and fair view of ANZ New Zealand's financial position as at 30 September 2018 and its financial performance and cash flows for the year ended on that date; and
- comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards.

In our opinion, the Registered Bank disclosures that are required to be disclosed in accordance with Schedules 4, 7, 11 and 13 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the Order) and is included in section, B2, B3, B5, B6 of the Disclosure Statement:

- have been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration;
- are in accordance with the books and records of ANZ New Zealand in all material respects; and
- fairly states the matters to which it relates in accordance with those schedules.

We have audited the accompanying consolidated financial statements and registered bank disclosures in section B2, B3, B5 and B6 which comprise:

- the consolidated statement of financial position as at 30 September 2018;
- the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended;
- notes, including a summary of significant accounting policies and other explanatory information; and
- the information that is required to be disclosed in accordance with Schedules 4, 7, 11 and 13 of the Order.

BASIS FOR OPINION

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

We are independent of 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 ISA (NZ) are further described in the Auditor's Responsibilities for the audit of the consolidated financial statements and registered bank disclosures in section B2, B3, B5 and B6 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 shareholder as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

PROVISION FOR CREDIT IMPAIRMENT AND DISCLOSURES FOR THE EXPECTED IMPACT OF NZ IFRS 9 *FINANCIAL INSTRUMENTS*

The Key Audit Matter

The provision for credit impairment is a key audit matter as 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.

INDEPENDENT AUDITOR'S REPORT

In preparation for adoption of NZ IFRS 9 *Financial Instruments* on 1 October 2018, ANZ New Zealand disclosed the expected impact of adoption. This added effort to our audit due to the complexity of the accounting standard and its expected pervasive impact on the industry. We focused on ANZ New Zealand's disclosure of the expected impact of measuring expected credit losses (ECLs) on loans and advances and the significant judgement exercised by ANZ New Zealand. ANZ New Zealand's models to calculate ECLs are inherently complex, and judgement is applied in determining the correct construct of the models. There are also a number of key assumptions made by ANZ New Zealand in applying the accounting standard requirements to the models, including the selection and input of forward-looking information.

How the matter was addressed in our audit

Our audit procedures for the individual and collective provision for credit impairment and disclosures for the expected impact of NZ IFRS 9 *Financial Instruments* applicable on 1 October 2018 included:

Provisions against specific individual loans (individual provision)

- Testing the key controls over counterparty risk grading for wholesale loans (larger customer exposures that are monitored individually). We tested the approval of new lending facilities against 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;
- 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 reviewed 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; and
- Evaluating ANZ New Zealand's oversight of retail loan portfolios (smaller customer exposures not monitored individually), with a focus on controls over delinquency statistics monitoring. We tested a sample of provisions held against different loan products, based on their delinquency profile, and challenged assumptions made in respect of expected recoveries, primarily from collateral held.

Provisions estimated across loan portfolios (collective provision)

- Testing 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; and
- Re-performing the calculation of collective provisions, for a sample of retail and wholesale portfolios and using a KPMG-constructed calculation tool to determine the accuracy of model output.

We also challenged key assumptions in the components of 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; and
- 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.

NZ IFRS 9 Financial Instruments

We assessed ANZ New Zealand's disclosures for the expected impact of NZ IFRS 9 *Financial Instruments* which is applicable on 1 October 2018. Together with KPMG credit risk and economics specialists, our procedures included:

- Assessing ANZ New Zealand's significant accounting policies against the requirements of the accounting standard;
- Assessing ANZ New Zealand's ECL modelling methodology and for a sample of models testing key credit modelling assumptions incorporated in the ECL models against the requirements of the standard and underlying accounting records;
- Assessing forward-looking economic assumptions and the development of economic scenarios against external economic information, and the application into the ECL models;
- Testing data reconciliation controls between the ECL models and source systems;
- Testing the accuracy of the modelled calculations by re-performing the ECL calculations on a sample basis;
- Assessing the disclosures in the financial statements against the requirements of NZ IFRS.

VALUATION OF FINANCIAL INSTRUMENTS

The Key Audit Matter

Financial instruments held at fair value on 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 and used by ANZ New Zealand to manage its own interest rate and foreign exchange risk.

The valuation of financial instruments held at fair value is considered a Key Audit Matter due to:

- Financial instruments held at fair value are significant (14% of assets and 7% of liabilities);
- The significant volume and range of products transacted, increases the risk of inconsistencies in transaction management processes that could lead to inaccurate valuation;
- Determining the fair value of trading securities and derivatives involves a significant level of judgement by 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; and
- 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; and
- 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 tested the valuation of financial instruments with both observable and unobservable inputs. Our specific testing involved valuation specialists and included:

- Re-performing the valuation of 'level 1' and 'level 2' available for sale assets and trading securities, which are primarily government, semi-government and corporate debt securities, by comparing the observable inputs, including quoted prices, to independently sourced market data;
- Using independent models, re-calculating the valuation of a sample of derivative assets and liabilities where the fair value was determined using observable inputs. This included comparing a sample of observable inputs used in 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. We compared ANZ New Zealand's valuation methodology to industry practice and the criteria in the accounting standards; and
- 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.

IT SYSTEMS AND CONTROLS

The Key Audit Matter

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

INDEPENDENT AUDITOR'S REPORT

the inputs used within automated calculations to source data and also tested the accuracy of the calculation logic for a sample of transactions within each identified control; and

- Testing the operating effectiveness of automated reconciliation controls, both between systems and intra-system. For a sample of identified breaks, in reconciliations, we checked that these were recorded on exception reports, and subsequently investigated and cleared by ANZ New Zealand.

OTHER INFORMATION

The Directors, on behalf of ANZ New Zealand, are responsible for the General Disclosures required to be included in ANZ New Zealand's Disclosure Statement in accordance with Schedule 2 of the Order (section B1).

Our opinion on the consolidated financial statements does not cover section B1 or the Supplementary Information relating to the Bank Financial Strength Dashboard and other information included on pages 81-83 (collectively referred to as 'other information') and we do not express any form of assurance conclusion thereon.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by ANZ New Zealand, as far as appears from our examination of those records.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B2, B3, B5 AND B6

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 4, 7, 11 and 13 of the Order;
- implementing necessary internal controls to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B2, B3, B5 AND B6

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 registered bank disclosures in section B2, B3, B5 and B6, prepared in accordance with Schedules 4, 7, 11 and 13 of the Order as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Independent Auditor's Report that includes our opinion.

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

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

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

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

REVIEW CONCLUSION ON THE REGISTERED BANK DISCLOSURES IN SECTION B4 RELATING TO CREDIT AND MARKET RISK EXPOSURES AND CAPITAL ADEQUACY (B4)

Based on our review, nothing has come to our attention that causes us to believe that the registered bank disclosures relating to credit and market risk exposures and capital adequacy as disclosed in section B4 of the Disclosure Statement, is not, in all material respects disclosed in accordance with Schedule 9 of the Order.

We have reviewed the registered bank disclosures as disclosed in section B4 of the Disclosure Statement for the year ended 30 September 2018. The registered bank disclosures that is required to be disclosed in accordance with Schedule 9 of the Order.

BASIS FOR CONCLUSION ON THE REGISTERED BANK DISCLOSURES IN SECTION B4

A review of the registered bank disclosures in section B4 in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410) is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our responsibilities under that standard are further described in the Auditor's Responsibilities for the review of the registered bank disclosures in section B4 of our report.

As the auditor of 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 REGISTERED BANK DISCLOSURES IN SECTION B4

The Directors are responsible for the preparation of registered bank disclosures in section B4 that is required to be prepared and disclosed in accordance with Schedule 9 of the Order and described in section B4 to the Disclosure Statement.

AUDITOR'S RESPONSIBILITIES FOR THE REVIEW OF THE REGISTERED BANK DISCLOSURES IN SECTION B4

Our responsibility is to express a conclusion on the registered bank disclosures in section B4 based on our review. We conducted our review in accordance with NZ SRE 2410 issued by the New Zealand External Reporting Board. As the auditor of ANZ New Zealand, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and plan and perform the review to obtain limited assurance about whether the registered bank disclosures in section B4 is, in all material respects, disclosed in accordance with Schedule 9 of the Order.

A review of the registered bank disclosures in section B4 in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the registered bank disclosures in section B4.

USE OF THE INDEPENDENT AUDITOR'S REPORT

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

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

For and on behalf of

KPMG
Auckland

15 November 2018

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BANK FINANCIAL STRENGTH DASHBOARD

This section does not form part of the Disclosure Statement. It contains information in respect of ANZ New Zealand included on the Bank Financial Strength Dashboard (Dashboard) published on RBNZ's website. There is no requirement for the Directors to review or approve this information.

Amounts below may differ slightly from those published by RBNZ due to rounding differences. The tables include reconciliations to amounts included in the Disclosure Statement where there are classification differences between the financial statements and the Dashboard.

Dashboard

Other information

BANK FINANCIAL STRENGTH DASHBOARD

D1. ASSET QUALITY

As at 30 September 2018	Housing NZ$m	Consumer NZ$m	Business NZ$m	Agriculture NZ$m	All other NZ$m	Total NZ$m
Total loans	78,057	3,574	28,823	17,427	1,388	129,269
Impaired loans	37	11	76	154	45	323
Loans 90 days past due but not impaired	167	24	27	3	-	221
Total non-performing loans	204	35	103	157	45	544
Non-performing loans ratio (%)	0.26%	0.98%	0.36%	0.90%	3.24%	0.42%
Individual provisions	10	6	45	35	36	132
Collective provisions	75	64	92	43	110	384
On-balance sheet residential mortgage exposures with LVRs that:						
Exceeds 80% and not 90%						3.5%
Exceeds 90%						1.6%

A reconciliation of the amounts in this table to the financial statements is included in the Other Information on page 83.

D2. PROFITABILITY / PERFORMANCE

	Financial statements		Classification differences	Dashboard	
	For the 12 months ended 30 September 2018 NZ$m	Less: For the 6 months ended 31 March 2018 NZ$m	Funds management income and other commissions NZ$m	Less: For the 3 months ended 30 June 2018 NZ$m	For the 3 months ended 30 September 2018 NZ$m
Interest income	6,550	(3,248)	-	(1,641)	1,661
Interest expense	3,373	(1,676)	-	(839)	858
Net interest income	3,177	(1,572)	-	(802)	803
Gains/losses on trading and hedging	277	(118)	-	(56)	103
Fee and commission income	385	(198)	139	(165)	161
All other income	481	(261)	(139)	(37)	44
Operating expenses	1,517	(747)	-	(374)	396
Impaired asset expense	53	(70)	-	(6)	(23)
Profit before tax	2,750	(1,332)	-	(680)	738
Tax expense	764	(368)	-	(188)	208
Profit after tax	1,986	(964)	-	(492)	530
Return on assets (%)					1.3%
Return on equity (%)					17.6%
Net interest margin (%)					2.1%

D3. FINANCIAL POSITION

As at 30 September 2018	Financial statements NZ$m	Classification differences: Other bank deposits and other assets NZ$m	Classification differences: Securities purchased under agreements to re-sell NZ$m	Classification differences: Subordinated loan from related party NZ$m	Dashboard NZ$m
Cash and bank deposits[1]	4,326	41	(136)	-	4,231
Debt securities held[2]	14,653	(78)	-	-	14,575
Net loans and advances	128,677	-	-	-	128,677
Derivatives in an asset position	8,072	-	-	-	8,072
All other assets	5,688	37	136	-	5,861
Total assets	161,416	-	-	-	161,416
Deposits	104,055	-	-	-	104,055
Debt securities issued[3]	27,930	-	-	(289)	27,641
Other borrowings[4]	6,314	1,336	-	289	7,939
Derivatives in a liability position	8,133	-	-	-	8,133
All other liabilities	3,748	(1,336)	-	-	2,412
Total liabilities (excluding head office account)	150,180	-	-	-	150,180
Equity	11,236	-	-	-	11,236

1 Comprises cash and collateral paid
2 Comprises trading securities, investments backing insurance contract liabilities and available-for-sale assets
3 Comprises debt issuances plus certificates of deposit and commercial paper from deposits and other borrowings
4 Comprises collateral received and the remaining items of deposits and other borrowings

OTHER INFORMATION

Reconciliation of total loans by industry and sector

The financial statements and Dashboard include amounts for total loans which are based on different definitions. The table below reconciles the various amounts. This information does not form part of the Disclosure Statement.

Housing loans and residential mortgage definitions

Housing loans comprise loans for owner occupier property use and residential investor property use. Owner occupiers are borrowers who own or are in the process of buying or building the house or flat they will live in as their principal place of residence. An owner can occupy more than one property e.g. a family home and a holiday home. Only households can have owner occupier property use loans. Investors are entities or persons borrowing for the purpose of building or purchasing residential property to rent. This includes 'Mum and dad' investor loans and any person(s) that have a separate residential investor property use loan which is not for their normal business purpose.

Residential mortgage exposures used in the loan-to-valuation ratio analysis are based on the definition of residential mortgage loans as defined in the Banking Supervision Handbook document *Capital Adequacy Framework (internal models based approach)* (BS2B). This metric is based on a collateral definition and may include some other lending that is not defined as Housing lending in the asset quality section of the Dashboard. See the Banking Supervision Handbook for a more detailed definition.

As at 30 September 2018	Note	Housing NZ$m	Consumer NZ$m	Business NZ$m	Agriculture NZ$m	All other[1] NZ$m	Total NZ$m
Total loans per Balance Sheet	11	80,609	n/a	n/a	n/a	48,509	129,118
Fair value hedge adjustment		(13)	-	-	-	13	-
Business loans secured by residential property		(2,539)	-	-	317	2,222	-
Residential investor property		(21,643)	-	-	51	21,592	-
Other household and agriculture industry loans		-	3,574	-	17,477	(21,051)	-
Concentration of loans by industry[2]	15	56,414	3,574	-	17,845	51,285	129,118
Fair value hedge adjustments		-	-	-	-	(13)	(13)
Unearned income on finance leases		-	-	-	-	(204)	(204)
Deposit components of overdraft product		-	-	-	-	368	368
Residential investor property		21,643	-	-	(51)	(21,592)	-
Business lending		-	-	28,463	(50)	(28,413)	-
Loans by purpose (RBNZ series S31)		78,057	3,574	28,463	17,744	1,431	129,269
Other business loans secured by residential property		-	-	360	(317)	(43)	-
Total loans per Dashboard	D1	78,057	3,574	28,823	17,427	1,388	129,269

1 All other in RBNZ series S31 and the Dashboard comprises: Depository and other financial institutions, Central and Local Government, Non-profit institutions serving households.
2 Household exposures (resident and non-resident) in Note 15 Financial Risk Management (Concentrations of Credit Risk) on page 32 comprise Housing and Consumer.