ANZ BANK NEW ZEALAND LIMITED
REGISTERED BANK DISCLOSURE STATEMENT

FOR THE SIX MONTHS ENDED 31 MARCH 2017
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FOR THE SIX MONTHS ENDED 31 MARCH 2017

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GLOSSARY OF TERMS

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

Bank means ANZ Bank New Zealand Limited.

Banking Group means the Bank and all its controlled entities.

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

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

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

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

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

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

UDC means UDC Finance Limited.

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

RBNZ means the Reserve Bank of New Zealand.

APRA means the Australian Prudential Regulation Authority.

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

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

GENERAL DISCLOSURES

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

Credit Rating Information

The Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations. The Bank's credit ratings are:

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

Guarantors

No material obligations of the Bank are guaranteed as at 12 May 2017.

ANZNZ Covered Bond Trust

Certain debt securities (Covered Bonds) issued by the Bank's wholly owned subsidiary, ANZ New Zealand (Int'l) Limited, are guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor has guaranteed the payment of interest and principal of Covered Bonds with a carrying value as at 31 March 2017 of NZ$5,011 million, pursuant to a guarantee which is secured over a pool of assets. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations payable in New Zealand dollars. The Covered Bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Details of the pool of assets that secure this guarantee are provided in note 7.

Other Matters

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

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

The Ultimate Parent Bank established a New Zealand branch which was registered on 5 January 2009. The Bank sells, from time-to-time, residential loans and mortgages into the NZ Branch to provide funding for the Bank's business. As at 31 March 2017, the NZ Branch held approximately NZ$5.3 billion of residential loans. To satisfy APRA's requirements described above, the Bank intends to repay this funding at approximately NZ$1.6 billion per annum over the five year transition period ending 31 December 2020.

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

Auditor

The Banking Group's auditor is KPMG, Chartered Accountants, Level 9, 10 Customhouse Quay, Wellington, New Zealand.

INCOME STATEMENT

	Note	Unaudited 6 months to 31/03/2017 NZ$m	Unaudited 6 months to 31/03/2016 NZ$m	Audited Year to 30/09/2016 NZ$m
Interest income		3,075	3,264	6,423
Interest expense		1,562	1,784	3,421
Net interest income		1,513	1,480	3,002
Net trading gains		136	19	12
Net funds management and insurance income		133	193	414
Other operating income	2	165	220	421
Share of associates' profit		1	-	5
Operating income		1,948	1,912	3,854
Operating expenses		730	821	1,599
Profit before credit impairment and income tax		1,218	1,091	2,255
Credit impairment charge	5	42	52	150
Profit before income tax		1,176	1,039	2,105
Income tax expense		330	283	570
Profit after income tax		846	756	1,535

STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 6 months to 31/03/2017 NZ$m	Unaudited 6 months to 31/03/2016 NZ$m	Audited Year to 30/09/2016 NZ$m
Profit after income tax	846	756	1,535
Items that will not be reclassified to profit or loss			
Actuarial gain / (loss) on defined benefit schemes	19	(5)	18
Income tax credit / (expense) relating to items that will not be reclassified	(5)	2	(5)
Total items that will not be reclassified to profit or loss	14	(3)	13
Items that may be reclassified subsequently to profit or loss			
Unrealised gains / (losses) recognised directly in equity	(15)	56	91
Realised losses transferred to income statement	6	2	9
Income tax credit / (expense) relating to items that may be reclassified	2	(17)	(28)
Total items that may be reclassified subsequently to profit or loss	(7)	41	72
Total comprehensive income for the period	853	794	1,620

BALANCE SHEET

	Note	Unaudited 31/03/2017 NZ$m	Unaudited 31/03/2016 NZ$m	Audited 30/09/2016 NZ$m
Assets				
Cash		1,894	2,830	2,274
Settlement balances receivable		678	544	396
Collateral paid		1,642	2,114	2,310
Trading securities		10,840	12,499	11,979
Investments backing insurance contract liabilities		145	189	119
Derivative financial instruments		14,146	21,157	21,110
Current tax assets		70	71	-
Available-for-sale assets		3,729	2,245	2,859
Net loans and advances	4	114,944	110,357	114,623
Other assets		618	765	701
Life insurance contract assets		583	567	630
Investments in associates		7	4	7
Premises and equipment		378	398	387
Goodwill and other intangible assets		3,290	3,416	3,424
UDC assets held for sale	18	2,837	-	-
Total assets		155,801	157,156	160,819
Interest earning and discount bearing assets		136,207	130,549	134,489
Liabilities				
Settlement balances payable		1,784	1,973	1,771
Collateral received		401	919	529
Deposits and other borrowings	8	99,689	97,629	99,066
Derivative financial instruments		14,508	22,234	21,956
Current tax liabilities		-	-	21
Deferred tax liabilities		162	145	145
Payables and other liabilities		1,084	1,738	1,119
Provisions		188	187	206
Debt issuances	9	20,601	17,547	20,014
Subordinated debt	10	3,283	2,344	3,282
UDC liabilities held for sale	18	1,328	-	-
Total liabilities		143,028	144,716	148,109
Net assets		12,773	12,440	12,710
Equity				
Share capital		8,888	8,888	8,888
Reserves		55	31	62
Retained earnings		3,830	3,521	3,760
Total equity		12,773	12,440	12,710
Interest and discount bearing liabilities		117,500	112,725	115,961

CONDENSED CASH FLOW STATEMENT

	Unaudited 6 months to 31/03/2017 NZ$m	Unaudited 6 months to 31/03/2016 NZ$m	Audited Year to 30/09/2016 NZ$m
Cash flows from operating activities			
Interest received	3,084	3,243	6,443
Interest paid	(1,560)	(1,830)	(3,416)
Other cash inflows provided by operating activities	451	476	976
Other cash outflows used in operating activities	(1,121)	(1,277)	(2,143)
Cash flows from operating profits before changes in operating assets and liabilities	854	612	1,860
Net changes in operating assets and liabilities	(802)	1,005	(4,434)
Net cash flows provided by / (used in) operating activities	52	1,617	(2,574)
Cash flows from investing activities			
Cash inflows provided by investing activities	-	38	40
Cash outflows used in investing activities	(26)	(48)	(100)
Net cash flows used in investing activities	(26)	(10)	(60)
Cash flows from financing activities			
Cash inflows provided by financing activities	2,943	2,883	8,318
Cash outflows used in financing activities	(3,388)	(4,022)	(5,840)
Net cash flows provided by / (used in) financing activities	(445)	(1,139)	2,478
Net increase / (decrease) in cash and cash equivalents	(419)	468	(156)
Cash and cash equivalents at beginning of the period	2,315	2,471	2,471
Cash and cash equivalents at end of the period	1,896	2,939	2,315

STATEMENT OF CHANGES IN EQUITY

	Share capital NZ$m	Available-for-sale revaluation reserve NZ$m	Cash flow hedging reserve NZ$m	Retained earnings NZ$m	Total equity NZ$m
As at 1 October 2015 (Audited)	8,888	-	(10)	3,575	12,453
Profit after income tax	-	-	-	756	756
Unrealised gains recognised directly in equity	-	-	56	-	56
Realised losses transferred to the income statement	-	-	2	-	2
Actuarial loss on defined benefit schemes	-	-	-	(5)	(5)
Income tax credit / (expense) on items recognised directly in equity	-	-	(17)	2	(15)
Total comprehensive income for the period	-	-	41	753	794
Ordinary dividend paid	-	-	-	(800)	(800)
Preference dividend paid	-	-	-	(7)	(7)
As at 31 March 2016 (Unaudited)	8,888	-	31	3,521	12,440
As at 1 October 2015 (Audited)	8,888	-	(10)	3,575	12,453
Profit after income tax	-	-	-	1,535	1,535
Unrealised gains / (losses) recognised directly in equity	-	(2)	93	-	91
Realised losses transferred to the income statement	-	2	7	-	9
Actuarial gain on defined benefit schemes	-	-	-	18	18
Income tax expense on items recognised directly in equity	-	-	(28)	(5)	(33)
Total comprehensive income for the period	-	-	72	1,548	1,620
Ordinary dividend paid	-	-	-	(1,350)	(1,350)
Preference dividend paid	-	-	-	(13)	(13)
As at 30 September 2016 (Audited)	8,888	-	62	3,760	12,710
Profit after income tax	-	-	-	846	846
Unrealised gains / (losses) recognised directly in equity	-	7	(22)	-	(15)
Realised losses transferred to the income statement	-	-	6	-	6
Actuarial gain on defined benefit schemes	-	-	-	19	19
Income tax credit / (expense) on items recognised directly in equity	-	(2)	4	(5)	(3)
Total comprehensive income for the period	-	5	(12)	860	853
Ordinary dividend paid	-	-	-	(785)	(785)
Preference dividend paid	-	-	-	(5)	(5)
As at 31 March 2017 (Unaudited)	8,888	5	50	3,830	12,773

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(i) Reporting entity and statement of compliance

These interim financial statements are for the Banking Group for the six months ended 31 March 2017. They have been prepared in accordance with the requirements of the Order and New Zealand Generally Accepted Accounting Practice (NZ GAAP) as applicable to interim financial statements. The Banking Group is a publicly accountable for-profit entity for the purposes of complying with NZ GAAP.

These financial statements comply with NZ IAS 34 *Interim Financial Reporting*, IAS 34 *Interim Financial Reporting* and the Order, and should be read in conjunction with the Banking Group's financial statements for the year ended 30 September 2016.

(ii) Basis of measurement

These financial statements have been prepared on a going concern basis in accordance with historical cost concepts except that the following assets and liabilities are stated at their fair value:

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

(iii) Changes in accounting policies

The accounting policies adopted by the Banking Group are consistent with those adopted and disclosed in the previous full year Disclosure Statement.

(iv) Presentation currency and rounding

The amounts contained in the financial statements are presented in millions of New Zealand dollars, unless otherwise stated.

(v) Comparatives

Certain amounts in the comparative information have been reclassified to ensure consistency with the current period's presentation.

(vi) Principles of consolidation

The financial statements consolidate the financial statements of the Bank and its subsidiaries.

2. OTHER OPERATING INCOME

	Unaudited 6 months to 31/03/2017 NZ$m	Unaudited 6 months to 31/03/2016 NZ$m	Audited Year to 30/09/2016 NZ$m
Net fee income	197	207	422
Fair value loss on hedging activities and financial liabilities designated at fair value	(49)	(8)	(40)
Gain / (loss) on sale of mortgages to NZ Branch	(1)	1	1
Other income	18	20	38
Total other operating income	165	220	421

NOTES TO THE FINANCIAL STATEMENTS

3. SEGMENT ANALYSIS

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

During the year ended 30 September 2016, Wealth was integrated with Retail, having been disclosed separately previously. Segment reporting has been updated to reflect this change and other minor changes to the Banking Group's structure. Comparative data has been adjusted to be consistent with the current period's segment definitions.

Retail

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

Commercial

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

Institutional

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

Other

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

Business segment analysis[1]

	Retail NZ$m	Commercial NZ$m	Institutional NZ$m	Other NZ$m	Total NZ$m
Unaudited 6 months to 31/03/2017					
External revenues	1,315	893	342	(602)	1,948
Intersegment revenues	(137)	(437)	23	551	-
Total revenues	1,178	456	365	(51)	1,948
Profit / (loss) after income tax	478	219	197	(48)	846
Unaudited 6 months to 31/03/2016					
External revenues	1,214	966	237	(505)	1,912
Intersegment revenues	(65)	(510)	(7)	582	-
Total revenues	1,149	456	230	77	1,912
Profit / (loss) after income tax	444	223	94	(5)	756
Audited year to 30/09/2016					
External revenues	2,543	1,890	453	(1,032)	3,854
Intersegment revenues	(198)	(980)	19	1,159	-
Total revenues	2,345	910	472	127	3,854
Profit after income tax	904	417	196	18	1,535

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

Other segment

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

	Unaudited 6 months to 31/03/2017 NZ$m	Unaudited 6 months to 31/03/2016 NZ$m	Audited Year to 30/09/2016 NZ$m
Operations and support	(1)	13	3
Economic hedges	(36)	(6)	(29)
Revaluation of insurance policies	(35)	14	42
Other	24	(26)	2
Total	(48)	(5)	18

NOTES TO THE FINANCIAL STATEMENTS

4. NET LOANS AND ADVANCES

	Note	Unaudited 31/03/2017 NZ$m	Unaudited 31/03/2016 NZ$m	Audited 30/09/2016 NZ$m
Overdrafts		1,267	1,128	1,133
Credit card outstandings		1,645	1,683	1,663
Term loans - housing		69,744	63,487	67,298
Term loans - non-housing		44,025	43,267	43,651
Lease receivables		217	229	226
Hire purchase		1,220	999	1,098
Total gross loans and advances		118,118	110,793	115,069
Less: Provision for credit impairment	5	(614)	(591)	(622)
Less: Unearned income		(219)	(213)	(211)
Add: Capitalised brokerage/mortgage origination fees		344	338	360
Add: Customer liability for acceptances		42	30	27
Net loans and advances (including assets classified as held for sale)		117,671	110,357	114,623
Less: UDC net loans and advances held for sale	18	(2,727)	-	-
Net loans and advances		114,944	110,357	114,623

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ$5,277 million as at 31 March 2017 (31/03/2016 NZ$7,107 million, 30/09/2016 NZ$6,020 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

5. PROVISION FOR CREDIT IMPAIRMENT

Credit impairment charge / (release)

	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Unaudited 31/03/2017				
New and increased provisions	4	46	66	116
Write-backs	(11)	(5)	(18)	(34)
Recoveries of amounts written off previously	-	(11)	(1)	(12)
Individual credit impairment charge / (release)	(7)	30	47	70
Collective credit impairment release	(2)	(4)	(22)	(28)
Credit impairment charge / (release)	(9)	26	25	42
Unaudited 31/03/2016				
New and increased provisions	8	57	39	104
Write-backs	(16)	(9)	(16)	(41)
Recoveries of amounts written off previously	-	(11)	(2)	(13)
Individual credit impairment charge / (release)	(8)	37	21	50
Collective credit impairment charge / (release)	(1)	4	(1)	2
Credit impairment charge / (release)	(9)	41	20	52
Audited 30/09/2016				
New and increased provisions	16	110	111	237
Write-backs	(28)	(18)	(30)	(76)
Recoveries of amounts written off previously	-	(22)	(3)	(25)
Individual credit impairment charge / (release)	(12)	70	78	136
Collective credit impairment charge	1	3	10	14
Credit impairment charge / (release)	(11)	73	88	150

NOTES TO THE FINANCIAL STATEMENTS

Movement in provision for credit impairment

	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Unaudited 31/03/2017				
Collective provision				
Balance at beginning of the period	78	130	263	471
Release to income statement	(2)	(4)	(22)	(28)
Balance at end of the period	76	126	241	443
Individual provision				
Balance at beginning of the period	37	6	108	151
New and increased provisions net of write-backs	(7)	41	48	82
Bad debts written off	-	(41)	(16)	(57)
Discount unwind	(1)	-	(4)	(5)
Balance at end of the period	29	6	136	171
Total provision for credit impairment	105	132	377	614
Unaudited 31/03/2016				
Collective provision				
Balance at beginning of the period	77	127	253	457
Charge / (release) to income statement	(1)	4	(1)	2
Balance at end of the period	76	131	252	459
Individual provision				
Balance at beginning of the period	54	9	91	154
New and increased provisions net of write-backs	(8)	48	23	63
Bad debts written off	(1)	(50)	(29)	(80)
Discount unwind	(1)	-	(4)	(5)
Balance at end of the period	44	7	81	132
Total provision for credit impairment	120	138	333	591
Audited 30/09/2016				
Collective provision				
Balance at beginning of the year	77	127	253	457
Charge to income statement	1	3	10	14
Balance at end of the year	78	130	263	471
Individual provision				
Balance at beginning of the year	54	9	91	154
New and increased provisions net of write-backs	(12)	92	81	161
Bad debts written off	(2)	(95)	(55)	(152)
Discount unwind	(3)	-	(9)	(12)
Balance at end of the year	37	6	108	151
Total provision for credit impairment	115	136	371	622

NOTES TO THE FINANCIAL STATEMENTS

6. IMPAIRED ASSETS AND PAST DUE ASSETS

	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Unaudited 31/03/2017				
Balance at beginning of the period	57	27	342	426
Transfers from productive	18	52	260	330
Transfers to productive	(10)	(5)	(9)	(24)
Assets realised or loans repaid	(21)	(13)	(155)	(189)
Write offs	-	(41)	(16)	(57)
Total impaired assets	44	20	422	486
Other assets under administration	7	2	-	9
Undrawn facilities with impaired customers	-	-	23	23
Unaudited 31/03/2016				
Balance at beginning of the period	97	32	253	382
Transfers from productive	32	67	107	206
Transfers to productive	(17)	(3)	(4)	(24)
Assets realised or loans repaid	(39)	(15)	(113)	(167)
Write offs	(1)	(50)	(29)	(80)
Total impaired assets	72	31	214	317
Other assets under administration	8	3	-	11
Undrawn facilities with impaired customers	-	-	12	12
Audited 30/09/2016				
Balance at beginning of the year	97	32	253	382
Transfers from productive	64	129	395	588
Transfers to productive	(31)	(8)	(7)	(46)
Assets realised or loans repaid	(71)	(31)	(244)	(346)
Write offs	(2)	(95)	(55)	(152)
Total impaired assets	57	27	342	426
Other assets under administration	9	2	-	11
Undrawn facilities with impaired customers	-	1	57	58

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

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

Ageing analysis of loans that are past due but not impaired

Unaudited 31/03/2017	Retail mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
1 to 5 days	374	114	803	1,291
6 to 29 days	164	80	74	318
1 to 29 days	538	194	877	1,609
30 to 59 days	146	37	44	227
60 to 89 days	88	19	18	125
90 days or over	108	32	17	157
	880	282	956	2,118

NOTES TO THE FINANCIAL STATEMENTS

7. ASSETS CHARGED AS SECURITY FOR LIABILITIES

The carrying amounts of assets pledged as security are as follows. These amounts exclude the amounts disclosed as collateral paid in the balance sheet that relate to derivative liabilities. The terms and conditions of the collateral agreements are included in the standard Credit Support Annex that forms part of the International Swaps and Derivatives Association Master Agreements.

	Carrying Amount			Related Liability		
	Unaudited 31/03/2017 NZ$m	Unaudited 31/03/2016 NZ$m	Audited 30/09/2016 NZ$m	Unaudited 31/03/2017 NZ$m	Unaudited 31/03/2016 NZ$m	Audited 30/09/2016 NZ$m
Securities sold under agreements to repurchase	425	140	77	425	140	76
Residential mortgages pledged as security for covered bonds	11,035	10,065	10,265	5,011	4,961	6,218
Assets pledged as collateral for UDC secured investments	2,803	2,571	2,665	1,303	1,737	1,592

UDC Secured Investments are secured by a security interest granted under the 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 moneys payable by UDC under the Trust Deed.

ANZNZ Covered Bond Trust (the Covered Bond Trust)

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

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

8. DEPOSITS AND OTHER BORROWINGS

	Note	Unaudited 31/03/2017 NZ$m	Unaudited 31/03/2016 NZ$m	Audited 30/09/2016 NZ$m
Term deposits		44,013	37,574	39,665
On demand and short term deposits		42,375	43,569	42,323
Deposits not bearing interest		8,568	7,268	7,780
UDC secured investments	7	1,303	1,737	1,592
Total customer deposits		96,259	90,148	91,360
Certificates of deposit		1,011	1,859	2,237
Commercial paper		2,949	5,451	5,364
Deposits from banks and securities sold under agreements to repurchase		750	140	76
Deposits from other members of ANZ New Zealand		23	31	29
Deposits and other borrowings (including liabilities classified as held for sale)		100,992	97,629	99,066
Less: UDC secured investments held for sale	18	(1,303)	-	-
Deposits and other borrowings		99,689	97,629	99,066

9. DEBT ISSUANCES

	Unaudited 31/03/2017 NZ$m	Unaudited 31/03/2016 NZ$m	Audited 30/09/2016 NZ$m
Domestic bonds	4,025	4,000	3,975
U.S. medium term notes[1]	8,586	5,944	6,883
Euro medium term notes[1]	3,064	2,535	2,792
Covered bonds[1]	5,011	4,961	6,218
Index linked notes	-	36	-
Total debt issuances	20,686	17,476	19,868
Fair value hedge adjustment	(51)	206	192
Less debt issuances held by the Bank	(34)	(135)	(46)
Total debt issuances	20,601	17,547	20,014

1 These debt issuances are issued by ANZ New Zealand (Int'l) Limited and are guaranteed by the Bank.

Debt issuances, other than covered bonds, are unsecured and rank equally with other unsecured liabilities of the Banking Group.

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10. SUBORDINATED DEBT

	Unaudited 31/03/2017 NZ$m	Unaudited 31/03/2016 NZ$m	Audited 30/09/2016 NZ$m
ANZ Capital Notes[1]			
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN)[2]	496	495	496
NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN)	1,003	1,003	1,003
NZD 938m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN2)	938	-	938
Perpetual subordinated debt			
NZD 835m perpetual subordinated bond[2,3]	835	835	835
AUD 10m perpetual subordinated floating rate loan	11	11	10
Total subordinated debt	3,283	2,344	3,282

1 These instruments qualify as additional tier 1 capital.
2 These instruments are quoted on the NZX Debt Market.
3 These instruments qualify as tier 2 capital, subject to the RBNZ's Basel III transition adjustment.

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

ANZ Capital Notes

- On 5 March 2015, the Bank issued 10.03 million convertible notes (ANZ NZ ICN) to the NZ Branch at NZ$100 each, raising NZ$1,003 million.
- On 31 March 2015, the Bank issued 500 million convertible notes (ANZ NZ CN) at NZ$1 each, raising NZ$500 million before issue costs.
- On 15 June 2016, the Bank issued 9.38 million convertible notes (ANZ NZ ICN2) to the NZ Branch at NZ$100 each, raising NZ$938 million.

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

As at 31 March 2017, ANZ NZ CN carried a BBB- credit rating from Standard and Poor's.

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

Interest

Interest on the notes is non-cumulative and payable as follows:

- ANZ NZ ICN: payable semi-annually in arrears in March and September in each year. The interest rate is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 380 basis point margin.
- ANZ NZ CN: payable quarterly in arrears in February, May, August and November in each year. The interest rate is fixed at 7.2% per annum until 25 May 2020, and thereafter will be based on a floating rate equal to the aggregate of the New Zealand 3 month bank bill rate plus a 350 basis point margin.
- ANZ NZ ICN2: payable semi-annually in arrears in June and December in each year. The interest rate is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 629 basis point margin.

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

Conversion features

On 24 March 2025 (ANZ NZ ICN) or 25 May 2022 (ANZ NZ CN) or an earlier date under certain circumstances, the relevant notes will mandatorily convert into a variable number of ordinary shares of the:

- Bank based on the net assets per share in the Bank's most recently published Disclosure Statement (ANZ NZ ICN) or
- Ultimate Parent Bank based on the average market price of the Ultimate Parent Bank's ordinary shares over a specified period prior to conversion less a 1% discount (ANZ NZ CN).

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

The Bank will be required to convert some or all of the notes if a common equity capital trigger event, or an RBNZ or APRA (ANZ NZ CN only) non-viability trigger event occurs. The ANZ NZ ICN and ANZ NZ ICN2 will convert into ordinary shares of the Bank and the ANZ NZ CN will convert into ordinary shares of the Ultimate Parent Bank, subject to a maximum conversion number.

A common equity capital trigger event occurs if the:

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

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

NOTES TO THE FINANCIAL STATEMENTS

equivalent support), it considers that the Ultimate Parent Bank would become non-viable.

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

On 24 March 2023 the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's prior approval), or to convert into ordinary shares of the Bank, all or some of the ANZ NZ ICN at its discretion on similar terms as mandatory conversion.

On 15 June 2026 and each 5th anniversary thereafter the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's prior approval), all or some of the ANZ NZ ICN2 at its discretion.

Rights of holders in event of liquidation

The notes rank equally with each other and with the Bank's preference shares and lower than perpetual subordinated debt. Holders of the notes do not have any right to vote in general meetings of the Bank.

Perpetual subordinated debt

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

NZD 835,000,000 bond

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

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

As at 31 March 2017, this bond carried a BBB+ rating by Standard and Poor's and an A3 rating by Moody's.

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

AUD 10,000,000 loan

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

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

11. RELATED PARTY BALANCES

	Unaudited 31/03/2017 NZ$m	Unaudited 31/03/2016 NZ$m	Audited 30/09/2016 NZ$m
Total due from related parties	3,908	5,422	4,929
Total due to related parties	6,001	6,404	7,154

NOTES TO THE FINANCIAL STATEMENTS

12. CAPITAL ADEQUACY

Basel III capital ratios

	Banking Group			Bank		
Unaudited	**31/03/2017**	**31/03/2016**	**30/09/2016**	**31/03/2017**	**31/03/2016**	**30/09/2016**
Common equity tier 1 capital	10.2%	10.0%	10.0%	9.2%	8.9%	8.9%
Tier 1 capital	13.5%	12.2%	13.2%	12.7%	11.2%	12.2%
Total capital	13.8%	12.8%	13.7%	13.0%	11.8%	12.8%
Buffer ratio	5.7%	4.8%	5.5%			
RBNZ minimum ratios:						
Common equity tier 1 capital	4.5%	4.5%	4.5%			
Tier 1 capital	6.0%	6.0%	6.0%			
Total capital	8.0%	8.0%	8.0%			
Buffer requirement	2.5%	2.5%	2.5%			

Capital of the Banking Group

Unaudited	**31/03/2017 NZ$m**
Tier 1 capital	
Common equity tier 1 capital	
Paid up ordinary shares issued by the Bank	8,588
Retained earnings (net of appropriations)	3,830
Accumulated other comprehensive income and other disclosed reserves	55
Less deductions from common equity tier 1 capital	
Goodwill and intangible assets, net of associated deferred tax liabilities	(3,409)
Cash flow hedge reserve	(51)
Expected losses to the extent greater than total eligible allowances for impairment	(324)
Common equity tier 1 capital	8,689
Additional tier 1 capital	
Preference shares	300
ANZ Capital Notes[1]	2,441
Capital attributable to the Bonus Bonds Scheme investors	37
Additional tier 1 capital	2,778
Total tier 1 capital	11,467
Tier 2 capital	
Qualifying tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements	
NZD 835,000,000 perpetual subordinated bond[1]	835
Less deductions from tier 2 capital	
Basel III transition adjustment[2]	(601)
Total tier 2 capital	234
Total capital	11,701

1 A summary of the terms of these instruments is included in note 10.

2 Certain instruments issued by the Bank qualify as tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements. Fixing the base at the nominal amount of such instruments outstanding at 31 December 2012, their recognition is capped at 20% of that base from 1 January 2017; and from 1 January 2018 onwards these instruments will not be included in regulatory capital.

NOTES TO THE FINANCIAL STATEMENTS

Terms of ordinary share capital

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

Terms of preference shares

All preference shares were issued by the Bank to the Immediate Parent and do not carry any voting rights. The preference shares are wholly classified as equity instruments as there is no contractual obligation for the Bank to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavourable basis. The key terms of the preference shares are as follows:

Dividends

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

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

Redemption features

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

- on any date on or after a change to laws or regulations that adversely affects the regulatory capital or tax treatment of the preference shares or
- on any dividend payment date on or after 1 March 2019 or
- on any date after 1 March 2019 if the Bank has ceased to be a wholly owned subsidiary of the Ultimate Parent Bank.

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

Rights of holders in event of liquidation

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

The preference shares qualify as "additional tier 1 capital" for capital adequacy purposes.

Capital requirements of the Banking Group

Unaudited 31/03/2017	Exposure at default NZ$m	Risk weighted exposure or implied risk weighted exposure[1] NZ$m	Total capital requirement NZ$m
Corporate exposures	49,801	30,285	2,423
Sovereign exposures	11,593	164	13
Bank exposures	11,545	3,416	273
Retail mortgage exposures	76,197	17,247	1,380
Other retail exposures	10,814	8,602	688
Exposures subject to internal ratings based approach	159,950	59,714	4,777
Specialised lending exposures subject to slotting approach	11,631	10,766	861
Exposures subject to standardised approach	2,264	396	32
Equity exposures	7	30	2
Other exposures	3,048	1,646	132
Agri business supervisory adjustment	n/a	1,305	104
Total credit risk	176,900	73,857	5,908
Operational risk	n/a	5,874	470
Market risk	n/a	5,216	418
Total	176,900	84,947	6,796

[1] Total credit risk weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

NOTES TO THE FINANCIAL STATEMENTS

Implementation of the advanced internal ratings based approach to credit risk measurement

The Banking Group adheres to the standards of risk grading and risk quantification as set out for Internal Ratings Based (IRB) banks in the RBNZ document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B).

Under this IRB Framework banks use their own measures for calculating the level of credit risk associated with customers and exposures, by way of the primary components of:

Probability of Default (PD): An estimate of the level of risk of borrower default graded by way of rating models used both at loan origination and for ongoing monitoring.

Exposure at Default (EAD): The expected facility exposure at default. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

Loss Given Default (LGD): An estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD. For Retail Mortgage exposures the Bank is required to apply the downturn LGDs according to loan to value (LVR) bands as set out in BS2B. For farm lending exposures the Banking Group is required to adopt RBNZ prescribed downturn LVR based LGDs, along with a minimum maturity of 2.5 years and the removal of the firm-size adjustment.

For exposures classified under Specialised Lending, the Banking Group uses slotting tables supplied by the RBNZ rather than internal estimates.

The exceptions to IRB treatment are three minor portfolios where, due to systems constraints, determining these IRB risk estimates is not currently feasible or appropriate. Risk weights for these exposures are calculated under a separate treatment as set out in the RBNZ document *Capital Adequacy Framework (Standardised Approach)* (BS2A).

Capital requirements by asset class under the IRB approach

Unaudited 31/03/2017	Total exposure or principal amount NZ$m	Exposure at default NZ$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure $m	Total capital requirement $m
On-balance sheet exposures						
Corporate	35,607	35,594	35	57	21,668	1,733
Sovereign	11,481	11,279	5	1	113	9
Bank	7,161	6,230	58	18	1,177	94
Retail mortgages	67,228	67,453	20	22	15,838	1,267
Other retail	5,087	5,181	75	95	5,241	419
Total on-balance sheet exposures	126,564	125,737	27	33	44,037	3,522
Off-balance sheet exposures						
Corporate	12,413	10,558	47	49	5,460	437
Sovereign	222	156	5	1	1	-
Bank	1,367	1,106	50	18	207	17
Retail mortgages	8,350	8,744	17	15	1,409	113
Other retail	5,573	5,633	79	56	3,361	269
Total off-balance sheet exposures	27,925	26,197	44	38	10,438	836
Market related contracts						
Corporate	115,783	3,649	61	82	3,157	253
Sovereign	16,893	158	5	30	50	4
Bank	1,024,287	4,209	61	46	2,032	162
Total market related contracts	1,156,963	8,016	60	62	5,239	419
Total credit risk exposures subject to the IRB approach	1,311,452	159,950	31	35	59,714	4,777

NOTES TO THE FINANCIAL STATEMENTS

IRB exposures by customer credit rating

Unaudited 31/03/2017	Probability of default %	Exposure at default NZ$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Corporate						
0 - 2	0.06	6,913	63	45	3,334	267
3 - 4	0.32	21,761	36	41	9,485	759
5	1.03	13,520	35	62	8,861	709
6	2.31	5,317	36	84	4,713	377
7 - 8	15.47	1,750	40	168	3,113	249
Default	100.00	540	42	136	779	62
Total corporate exposures	2.30	49,801	40	57	30,285	2,423
Sovereign						
0	0.01	11,388	5	1	159	13
1 - 8	0.03	205	5	2	5	-
Total sovereign exposures	0.01	11,593	5	1	164	13
Bank						
0	0.03	45	65	23	11	1
1	0.03	10,473	58	26	2,907	233
2 - 4	0.11	1,022	60	45	491	39
5 - 8	1.35	5	65	116	7	-
Total bank exposures	0.04	11,545	58	28	3,416	273
Retail mortgages						
0 - 3	0.20	20,020	12	5	1,156	92
4	0.46	29,032	19	15	4,661	373
5	0.92	21,607	24	33	7,512	601
6	2.00	4,956	28	65	3,418	273
7 - 8	4.94	403	28	104	445	36
Default	100.00	179	21	29	55	5
Total retail mortgages exposures	0.88	76,197	19	21	17,247	1,380
Other retail						
0 - 2	0.10	636	78	48	322	26
3 - 4	0.27	4,865	78	55	2,827	226
5	1.03	1,796	73	75	1,418	113
6	2.20	1,759	73	91	1,698	136
7 - 8	8.13	1,686	83	128	2,296	184
Default	100.00	72	79	54	41	3
Total other retail exposures	2.59	10,814	77	75	8,602	688
Total credit risk exposures subject to the IRB approach	1.31	159,950	31	35	59,714	4,777

Credit risk exposures subject to the IRB approach have been derived in accordance with BS2B and other relevant correspondence with RBNZ setting out prescribed credit risk estimates.

NOTES TO THE FINANCIAL STATEMENTS

Specialised lending subject to the slotting approach

Unaudited 31/03/2017	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures				
Strong	3,174	70	2,355	188
Good	6,177	90	5,893	471
Satisfactory	781	115	953	76
Weak	104	250	276	23
Default	32	-	-	-
Total on-balance sheet exposures	10,268	87	9,477	758

Unaudited 31/03/2017	Exposure amount NZ$m	Exposure at default NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Off-balance sheet exposures					
Undrawn commitments and other off balance sheet exposures	1,307	1,265	85	1,141	91
Market related contracts	2,115	98	143	148	12
Total off-balance sheet exposures	3,422	1,363	89	1,289	103

Specialised lending exposures subject to the slotting approach have been calculated in accordance with BS2B.

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

Credit risk exposures subject to the standardised approach

Unaudited 31/03/2017	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures				
Corporates	52	100	55	4
Default	1	150	1	-
Total on-balance sheet exposures	53	101	56	4

Unaudited 31/03/2017	Exposure amount NZ$m	Average credit conversion factor %	Exposure at default NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Off-balance sheet exposures						
Undrawn commitments and other off balance sheet exposures	498	51	256	95	257	21
Market related contracts	508,246	-	1,955	4	83	7
Total off balance sheet	508,744	n/a	2,211	15	340	28

Credit exposures subject to the Standardised Approach have been calculated in accordance with BS2A.

Equity exposures

Unaudited 31/03/2017	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
All equity holdings not deducted from capital	7	400	30	2

Equity exposures have been calculated in accordance with BS2B.

NOTES TO THE FINANCIAL STATEMENTS

Other exposures

Unaudited 31/03/2017	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Cash	207	-	-	-
New Zealand dollar denominated claims on the Crown and the RBNZ	1,288	-	-	-
Other assets	1,553	100	1,646	132
Total other IRB credit risk exposures	3,048	51	1,646	132

Other exposures have been calculated in accordance with BS2B.

Credit risk mitigation

The Banking Group assesses the integrity and ability of counterparties to meet their contractual financial obligations for repayment. The Banking Group generally takes collateral security in the form of real property or a security interest in personal property, except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance, in the form of housing loans, is generally secured against real estate while short term revolving consumer credit is generally unsecured.

As at 31 March 2017, under the IRB approach, the Banking Group had NZ$1,093 million of Corporate exposures covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

Operational risk

The Banking Group uses the Advanced Measurement Approach for determining its regulatory capital requirement for operational risk calculated in accordance with BS2B. As at 31 March 2017 the Banking Group had an implied risk weighted exposure of NZ$5,874 million for operational risk and an operational risk capital requirement of NZ$470 million.

Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B. The peak end-of-day market risk exposures are for the six months ended 31 March 2017.

	Implied risk weighted exposure		Aggregate capital charge		Peak
Unaudited 31/03/2017	Period end NZ$m	Peak NZ$m	Period end NZ$m	Peak NZ$m	occurred on
Interest rate risk	5,145	8,138	412	651	7/10/2016
Foreign currency risk	70	110	6	9	1/02/2017
Equity risk	1	1	-	-	1/10/2016
	5,216		418		

Pillar II Capital for other material risks

The Banking Group has an Internal Capital Adequacy Assessment Process (ICAAP) which complies with the requirements of the Bank's Conditions of Registration.

Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier 1 and total capital ratios. The other material risks identified by the Banking Group include pension risk, insurance risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk, value in-force risk, business retention risk and software risk.

The Banking Group's internal capital allocation for these other material risks is NZ$435 million (31/03/2016 NZ$514 million; 30/09/2016 NZ$441 million).

The Banking Group regularly reviews the methodologies used to calculate the economic capital allocated to other material risks.

NOTES TO THE FINANCIAL STATEMENTS

Capital adequacy of the Ultimate Parent Bank

Basel III capital ratios

	Overseas Banking Group			Ultimate Parent Bank (Extended Licensed Entity)		
Unaudited	**31/03/2017**	**31/03/2016**	**30/09/2016**	**31/03/2017**	**31/03/2016**	**30/09/2016**
Common equity tier 1 capital	10.1%	9.8%	9.6%	10.2%	10.2%	9.7%
Tier 1 capital	12.1%	11.6%	11.8%	12.3%	12.2%	12.1%
Total capital	14.5%	13.7%	14.3%	14.8%	14.4%	14.7%

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

Under prudential regulations, the Overseas Banking Group is required to maintain a Prudential Capital Ratio (PCR) as determined by APRA. The Overseas Banking Group exceeded the PCR set by APRA as at 31 March 2017 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 31 March 2017. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 31 March 2017, in accordance with APS 330: *Public Disclosure of Prudential Information*, discloses capital adequacy ratios and other prudential information. This document can be accessed at the website anz.com.

Residential mortgages by loan-to-valuation ratio

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

	31/03/2017		
Unaudited	**On-balance sheet NZ$m**	**Off-balance sheet NZ$m**	**Total NZ$m**
LVR range			
Does not exceed 60%	30,437	5,145	35,582
Exceeds 60% and not 70%	15,120	1,422	16,542
Exceeds 70% and not 80%	16,927	1,422	18,349
Does not exceed 80%	62,484	7,989	70,473
Exceeds 80% and not 90%	3,155	166	3,321
Exceeds 90%	1,589	195	1,784
Total	67,228	8,350	75,578

Reconciliation of mortgage related amounts

Unaudited	**Note**	**31/03/2017 NZ$m**
Term loans - housing	4	69,744
Less: fair value hedging adjustment		(45)
Less: housing loans made to corporate customers		(2,505)
Add: Unsettled re-purchases of mortgages from the NZ Branch		34
On-balance sheet retail mortgage exposures subject to the IRB approach	12	67,228
Add: off-balance sheet retail mortgage exposures subject to the IRB approach		8,350
Total retail mortgage exposures subject to the IRB approach (as per LVR analysis)	12	75,578

NOTES TO THE FINANCIAL STATEMENTS

13. FINANCIAL RISK MANAGEMENT

Concentrations of credit risk

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

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

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

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

Unaudited 31/03/2017	Cash, settlements receivable and collateral paid NZ$m	Trading securities and available-for-sale assets NZ$m	Derivative financial instruments NZ$m	Net loans and advances[3] NZ$m	Other financial assets NZ$m	Credit related commitments[4] NZ$m	Total NZ$m
New Zealand residents							
Agriculture	-	-	25	17,565	60	1,699	19,349
Forestry and fishing, agriculture services	-	-	1	1,308	4	235	1,548
Manufacturing	-	3	187	3,016	10	2,090	5,306
Electricity, gas, water and waste services	-	41	442	1,623	6	1,244	3,356
Construction	-	-	3	1,458	5	968	2,434
Wholesale trade	-	-	40	1,673	6	1,437	3,156
Retail trade and accommodation	-	1	16	2,953	10	1,080	4,060
Transport, postal and warehousing	-	15	59	1,444	5	1,138	2,661
Finance and insurance services	2,182	2,199	968	1,247	292	1,294	8,182
Public administration and safety[1]	-	6,653	563	368	5	723	8,312
Rental, hiring & real estate services	-	-	108	29,544	102	3,670	33,424
Professional, scientific, technical, administrative and support services	-	-	5	1,171	4	601	1,781
Households	-	-	-	49,712	171	11,583	61,466
All other New Zealand residents[2]	-	2	203	2,545	9	1,806	4,565
	2,182	8,914	2,620	115,627	689	29,568	159,600
Overseas							
Finance and insurance services	1,825	4,939	11,419	73	-	-	18,256
Households	-	-	-	1,420	5	-	1,425
All other non-NZ residents	-	716	107	1,040	4	162	2,029
	1,825	5,655	11,526	2,533	9	162	21,710
Less: Provision for credit impairment	-	-	-	(536)	-	(78)	(614)
Less: Unearned income	-	-	-	(219)	-	-	(219)
Add: Capitalised brokerage / mortgage origination fees	-	-	-	344	-	-	344
Total financial assets	4,007	14,569	14,146	117,749	698	29,652	180,821

NOTES TO THE FINANCIAL STATEMENTS

Audited 30/09/2016	Cash, settlements receivable and collateral paid NZ$m	Trading securities and available-for-sale assets NZ$m	Derivative financial instruments NZ$m	Net loans and advances[3] NZ$m	Other financial assets NZ$m	Credit related commitments[4] NZ$m	Total NZ$m
New Zealand residents							
Agriculture	-	-	23	17,779	61	1,366	19,229
Forestry and fishing, agriculture services	-	-	21	1,231	4	242	1,498
Manufacturing	-	12	185	3,555	12	2,012	5,776
Electricity, gas, water and waste services	-	21	642	1,298	4	1,255	3,220
Construction	-	-	17	1,579	5	1,030	2,631
Wholesale trade	-	-	23	1,645	6	1,596	3,270
Retail trade and accommodation	-	-	63	3,059	11	1,110	4,243
Transport, postal and warehousing	-	5	91	1,380	5	924	2,405
Finance and insurance services	2,931	2,569	1,186	807	282	1,385	9,160
Public administration and safety[1]	-	7,028	1,049	352	5	750	9,184
Rental, hiring & real estate services	-	-	75	28,230	97	3,562	31,964
Professional, scientific, technical, administrative and support services	-	-	9	1,154	4	734	1,901
Households	-	-	-	47,923	165	11,486	59,574
All other New Zealand residents[2]	-	46	244	2,529	8	2,122	4,949
	2,931	9,681	3,628	112,521	669	29,574	159,004
Overseas							
Finance and insurance services	1,856	4,703	17,470	95	-	-	24,124
Households	-	-	-	1,353	5	-	1,358
All other non-NZ residents	-	454	12	1,127	4	183	1,780
	1,856	5,157	17,482	2,575	9	183	27,262
Less: Provision for credit impairment	-	-	-	(518)	-	(104)	(622)
Less: Unearned income	-	-	-	(211)	-	-	(211)
Add: Capitalised brokerage / mortgage origination fees	-	-	-	360	-	-	360
Total financial assets	4,787	14,838	21,110	114,727	678	29,653	185,793

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

NOTES TO THE FINANCIAL STATEMENTS

Interest rate sensitivity gap

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

Unaudited 31/03/2017	Total NZ$m	Up to 3 months NZ$m	Over 3 to 6 months NZ$m	Over 6 to 12 months NZ$m	Over 1 to 2 years NZ$m	Over 2 years NZ$m	Not bearing interest NZ$m
Assets							
Cash	1,894	1,687	-	-	-	-	207
Settlement balances receivable	678	51	-	-	-	-	627
Collateral paid	1,642	1,642	-	-	-	-	-
Trading securities	10,840	1,637	150	1,550	2,932	4,571	-
Derivative financial instruments	14,146	-	-	-	-	-	14,146
Available-for-sale assets	3,729	646	187	451	539	1,905	1
Net loans and advances[1]	117,671	61,174	9,583	15,592	21,314	10,451	(443)
Other financial assets[1]	698	62	40	26	15	2	553
Total financial assets	151,298	66,899	9,960	17,619	24,800	16,929	15,091
Liabilities							
Settlement balances payable	1,784	499	-	-	-	-	1,285
Collateral received	401	401	-	-	-	-	-
Deposits and other borrowings[1]	100,992	69,400	10,535	9,074	2,164	1,251	8,568
Derivative financial instruments	14,508	-	-	-	-	-	14,508
Debt issuances	20,601	3,373	400	2,748	2,851	11,229	-
Subordinated debt	3,283	938	1,003	-	846	496	-
Payables and other liabilities[1]	754	91	-	-	1	200	462
Total financial liabilities	142,323	74,702	11,938	11,822	5,862	13,176	24,823
Hedging instruments	-	18,923	(11,369)	10,555	(16,368)	(1,741)	-
Interest sensitivity gap	8,975	11,120	(13,347)	16,352	2,570	2,012	(9,732)

[1] Includes UDC items classified as held for sale.

Liquidity portfolio

The Banking Group holds a diversified portfolio of cash and high quality liquid securities to support liquidity risk management. The size of the Banking Group's liquidity portfolio is based on the amount required to meet the requirements of its liquidity policy and includes both items classified as cash and those classified as operating assets in the Condensed Cash Flow Statement.

Unaudited	31/03/2017 NZ$m
Cash and balances with central banks	1,616
Certificates of deposit	528
Government, local body stock and bonds	5,834
Government treasury bills	502
Reserve Bank bills	240
Other bonds	7,042
Total liquidity portfolio	15,762

The Bank also held unencumbered internal residential mortgage backed securities which would entitle the Banking Group to enter into repurchase transactions with a value of NZ$7,709 million at 31 March 2017.

NOTES TO THE FINANCIAL STATEMENTS

Funding composition

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

Analysis of funding liabilities by industry is based on ANZSIC codes. The significant categories shown are the level one New Zealand Standard Industry Output Categories (NZSIOC).

The presentation of these tables has changed from previous periods to align this disclosure with the classifications in the new data series *S41 – Banks: Liabilities – Deposits by industry* published by the RBNZ. This series uses ANZSIC 2006 industry classifications rather than ANZSIC 1996 that were previously used. Updated corresponding amounts as at 30 September 2016 have been provided for comparative purposes.

	Note	Unaudited 31/03/2017 NZ$m	Audited 30/09/2016 NZ$m
Funding composition			
Customer deposits	8	96,259	91,360
Wholesale funding			
Debt issuances		20,601	20,014
Subordinated debt		3,283	3,282
Certificates of deposit		1,011	2,237
Commercial paper		2,949	5,364
Other borrowings		773	105
Total wholesale funding		28,617	31,002
Total funding		124,876	122,362
Customer deposits by industry - New Zealand residents			
Agriculture, forestry and fishing		3,726	3,334
Manufacturing		2,016	1,978
Construction		1,446	1,598
Wholesale trade		1,371	1,284
Retail trade and accommodation		1,550	1,328
Financial and insurance services		8,748	8,918
Rental, hiring and real estate services		2,519	2,321
Professional, scientific, technical, administrative and support services		5,790	4,958
Public administration and safety		1,245	1,258
Arts, recreation and other services		1,984	1,833
Households		51,613	49,492
All other New Zealand residents[1]		4,093	3,040
		86,101	81,342
Customer deposits by industry - overseas			
Households		9,402	8,948
All other non-NZ residents		756	1,070
		10,158	10,018
Total customer deposits		96,259	91,360
Wholesale funding (financial and insurance services industry)			
New Zealand		8,922	9,080
Overseas		19,695	21,922
Total wholesale funding		28,617	31,002
Total funding		124,876	122,362
Concentrations of funding by geography			
New Zealand		95,023	90,422
Australia		863	1,017
United States		12,338	12,215
Europe		9,341	11,448
Other countries		7,311	7,260
Total funding		124,876	122,362

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

NOTES TO THE FINANCIAL STATEMENTS

Contractual maturity analysis of financial assets and liabilities

The following tables present the Banking Group's financial assets and liabilities within relevant contractual maturity groupings, based on the earliest date on which the Banking Group may be required to realise an asset or settle a liability. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows and may differ to the amounts reported on the balance sheet.

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

The Banking Group does not manage its liquidity risk on this basis.

Unaudited 31/03/2017	Total NZ$m	At call NZ$m	Up to 3 months NZ$m	Over 3 to 12 months NZ$m	Over 1 to 5 years NZ$m	Over 5 years NZ$m	No maturity specified NZ$m
Financial assets							
Cash	1,894	1,496	398	-	-	-	-
Settlement balances receivable	678	98	580	-	-	-	-
Collateral paid	1,642	-	1,642	-	-	-	-
Trading securities	11,591	-	1,044	2,146	7,934	467	-
Derivative financial assets (trading)	13,117	-	13,117	-	-	-	-
Available-for-sale assets	3,989	-	204	975	2,360	449	1
Net loans and advances[1]	154,352	139	16,373	17,144	52,761	67,935	-
Other financial assets[1]	293	-	210	66	17	-	-
Total financial assets	187,556	1,733	33,568	20,331	63,072	68,851	1
Financial liabilities							
Settlement balances payable	1,784	987	797	-	-	-	-
Collateral received	401	-	401	-	-	-	-
Deposits and other borrowings[1]	102,380	51,187	26,278	21,160	3,755	-	-
Derivative financial liabilities (trading)	12,252	-	12,252	-	-	-	-
Debt issuances	21,844	-	1,102	3,836	14,525	2,381	-
Subordinated debt	3,715	-	11	33	1,516	2,155	-
Other financial liabilities[1]	406	-	98	11	205	92	-
Total financial liabilities	142,782	52,174	40,939	25,040	20,001	4,628	-
Derivative financial instruments used for balance sheet management							
- gross inflows	15,021	-	794	3,396	8,063	2,768	-
- gross outflows	(16,037)	-	(839)	(3,735)	(8,572)	(2,891)	-
Net financial assets / (liabilities) after balance sheet management	43,758	(50,441)	(7,416)	(5,048)	42,562	64,100	1

[1] Includes UDC items classified as held for sale.

Contractual maturity of off-balance sheet commitments and contingent liabilities

Unaudited 31/03/2017	Total NZ$m	Less than 1 year NZ$m	Beyond 1 year NZ$m
Non-credit related commitments	499	87	412
Credit related commitments	27,411	27,411	-
Contingent liabilities	2,319	2,319	-
Total	30,229	29,817	412

NOTES TO THE FINANCIAL STATEMENTS

14. FAIR VALUE MEASUREMENTS

Financial assets and financial liabilities not measured at fair value

Below is a comparison of the carrying amounts as reported on the balance sheet and fair value of financial asset and liability categories other than those categories where the carrying amount is at fair value or considered a reasonable approximation of fair value.

The fair values below have been calculated using discounted cash flow techniques where contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates or market borrowing rates of debt with similar maturities or a yield curve appropriate for the remaining term to maturity.

	Unaudited 31/03/2017		Unaudited 31/03/2016		Audited 30/09/2016	
	Carrying amount NZ$m	Fair value NZ$m	Carrying amount NZ$m	Fair value NZ$m	Carrying amount NZ$m	Fair value NZ$m
Assets						
Net loans and advances[1, 2]	117,671	117,740	110,357	110,870	114,623	114,891
Liabilities						
Deposits and other borrowings[2, 3]	100,992	101,042	97,629	97,792	99,066	99,169
Debt issuances[1]	20,601	20,780	17,547	17,656	20,014	20,148
Subordinated debt	3,283	3,441	2,344	2,252	3,282	3,351

1 Fair value hedging is applied to certain financial instruments within these categories. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.
2 Includes UDC items classified as held for sale.
3 Includes commercial paper (note 8) designated at fair value through profit or loss.

Financial assets and financial liabilities measured at fair value in the balance sheet

The Banking Group uses a valuation method within the following hierarchy to determine the carrying amount of assets and liabilities held at fair value, all of which are recurring fair value measurements. There are no assets or liabilities measured at fair value on a non-recurring basis.

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

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

Valuation hierarchy

	Unaudited 31/03/2017				Unaudited 31/03/2016				Audited 30/09/2016			
	Level 1 NZ$m	Level 2 NZ$m	Level 3 NZ$m	Total NZ$m	Level 1 NZ$m	Level 2 NZ$m	Level 3 NZ$m	Total NZ$m	Level 1 NZ$m	Level 2 NZ$m	Level 3 NZ$m	Total NZ$m
Financial assets												
Trading securities	9,994	846	-	10,840	12,364	135	-	12,499	11,937	42	-	11,979
Derivative financial instruments	16	14,125	5	14,146	14	21,137	6	21,157	3	21,100	7	21,110
Available-for-sale assets	3,634	94	1	3,729	1,885	358	2	2,245	1,671	1,187	1	2,859
Investments backing insurance contract liabilities	5	140	-	145	-	189	-	189	5	114	-	119
Total financial assets held at fair value	13,649	15,205	6	28,860	14,263	21,819	8	36,090	13,616	22,443	8	36,067
Financial liabilities												
Deposits and other borrowings	-	2,949	-	2,949	-	5,451	-	5,451	-	5,364	-	5,364
Derivative financial instruments	20	14,486	2	14,508	47	22,187	-	22,234	46	21,908	2	21,956
Payables and other liabilities	249	-	-	249	760	-	-	760	157	-	-	157
Total financial liabilities held at fair value	269	17,435	2	17,706	807	27,638	-	28,445	203	27,272	2	27,477

NOTES TO THE FINANCIAL STATEMENTS

15. CONCENTRATIONS OF CREDIT RISK TO INDIVIDUAL COUNTERPARTIES

The Banking Group measures its concentration of credit risk using actual exposures for bank counterparties and limits for non bank counterparties. No account is taken of collateral, security and/or netting agreements which the Banking Group may hold in respect of the various counterparty exposures.

For the three months ended 31 March 2017 there were no individual counterparties (excluding connected parties, governments and banks with long term credit ratings of A- or above) where the Banking Group's period end or peak end-of-day credit exposure equalled or exceeded 10% of equity (as at the end of the period).

16. INSURANCE BUSINESS

The Banking Group conducts insurance business through its subsidiary OnePath Life (NZ) Limited (OnePath Life).

The Banking Group's aggregate amount of insurance business comprises the total assets of OnePath Life of NZ$907 million (31/03/2016: NZ$943 million; 30/09/2016 NZ$926 million), which is 0.6% (31/03/2016: 0.6%; 30/09/2016 0.6%) of the total consolidated assets of the Banking Group.

17. CREDIT RELATED COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

	Unaudited 31/03/2017 NZ$m	Unaudited 31/03/2016 NZ$m	Audited 30/09/2016 NZ$m
Contract amount of:			
Credit related commitments - facilities provided			
Undrawn facilities[1]	27,411	27,766	27,296
Guarantees and contingent liabilities			
Guarantees and letters of credit	860	818	850
Performance related contingencies	1,459	1,614	1,611
Total guarantees and contingent liabilities	2,319	2,432	2,461
Total Credit Related Commitments, Guarantees and Contingent Liabilities	29,730	30,198	29,757

[1] The comparative amount for undrawn facilities as at 31 March 2016 has been reduced by NZ$5,368 million following a review of the composition of commitments.

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

Other contingent liabilities

The Banking Group has other contingent liabilities in respect of actual and possible claims and court proceedings.

An assessment of the Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision made where deemed necessary.

18. DISPOSAL GROUP HELD FOR SALE

On 11 January 2017, the Bank announced that it had entered into a conditional agreement to sell UDC to HNA Group for approximately NZ$660 million. Completion is expected late in the second half of the 2017 calendar year. The assets and liabilities of UDC are classified as held for sale as at 31 March 2017.

The sale is subject to closing steps and conditions including engaging with investors on the replacement of the Secured Investment programme and regulatory approvals.

DIRECTORS' STATEMENT

As at the date on which this Disclosure Statement is signed, after due enquiry, each Director believes that:

(i) The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014

(ii) The Disclosure Statement is not false or misleading.

Over the six months ended 31 March 2017, after due enquiry, each Director believes that:

(i) ANZ Bank New Zealand Limited has complied with all Conditions of Registration that applied during that period

(ii) Credit exposures to connected persons were not contrary to the interests of the Banking Group

(iii) ANZ Bank New Zealand Limited had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated, and has been signed by or on behalf of all Directors of the Bank on, 12 May 2017.

Antony Carter

Shayne Elliott

David Hisco

John Judge

Mark Verbiest

Nigel Williams

Joan Withers

KPMG

INDEPENDENT AUDITOR'S REVIEW REPORT

To the Shareholder of ANZ Bank New Zealand Limited

We have reviewed pages 3 to 28 of the half year disclosure statement of ANZ Bank New Zealand Limited (the Bank) and its related entities (the Banking Group) which includes interim financial statements prepared and disclosed in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order) and supplementary information prescribed in schedules 3, 5, 7, 11, 13, 16 and 18 of the Order. The interim financial statements and supplementary information provide information about the past financial performance and cash flows of the Banking Group for the six month period ended 31 March 2017 and its financial position as at 31 March 2017.

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

Directors' responsibilities

The directors of ANZ Bank New Zealand Limited are responsible for the preparation and presentation of the half year disclosure statement, which includes interim financial statements prepared in accordance with Clause 25 of the Order, NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*, which present fairly, in all material respects, the financial position of the Banking Group as at 31 March 2017 and its financial performance and cash flows for the six month period ended on that date. The directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the half year disclosure statement that is free from material misstatement whether due to fraud or error.

They are also responsible for the preparation of supplementary information in the half year disclosure statement which fairly states the matters to which it relates in accordance with schedules 3, 5, 7, 11, 13, 16 and 18 of the Order.

Our responsibilities

Our responsibility is to express an independent review opinion on the half year disclosure statement, which includes the interim financial statements disclosed in accordance with Clause 25 of the Order, and supplementary information disclosed in accordance with schedules 5, 7, 11, 13, 16 and 18 of the Order, as presented to us by the directors, and report our opinion to you.

We are responsible for reviewing the interim financial statements (excluding the supplementary information) in order to report to you whether, in our opinion, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the interim financial statements have not been prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting* and do not present fairly, in all material respects, the financial position of the Banking Group as at 31 March 2017 and its financial performance and cash flows for the six month period ended on that date.

We are responsible for reviewing the supplementary information (excluding the supplementary information relating to capital adequacy) in order to report to you whether, in our opinion, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with schedules 5, 7, 13, 16 and 18 of the Order.

We are responsible for reviewing the supplementary information relating to capital adequacy in order to state whether, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the information disclosed in accordance with schedule 11 is not, in all material respects, prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with schedule 11 of the Order.

Basis of opinion

We have performed our review in accordance with the review engagement standard NZ Standard on Review Engagements 2410, *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410) issued by the External Reporting Board. As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review is limited primarily to enquiries of the Banking Group's personnel and analytical review procedures applied to the financial data, and thus provides less assurance than an audit. 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 those interim financial statements.

Our firm has also provided other services to the Banking Group in relation to review and other assurance engagements. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as auditors of the Banking Group for this engagement. The firm has no other relationship with, or interest in, the Banking Group.

Review opinion

We have examined the interim financial statements and supplementary information and based on our review nothing has come to our attention that causes us to believe that:

a) the interim financial statements on pages 3 to 28 (excluding the supplementary information disclosed in accordance with schedules 5, 7, 11, 13, 16 and 18 of the Order) have not been prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting* and do not present fairly, in all material respects, the financial position of the Banking Group as at 31 March 2017 and its financial performance and cash flows for the six month period ended on that date

b) the supplementary information (excluding supplementary information relating to capital adequacy) disclosed in accordance with schedules 5, 7, 13, 16 and 18 of the Order, does not fairly state, in all material respects, the matters to which it relates in accordance with those schedules

c) the supplementary information relating to capital adequacy disclosed in accordance with schedule 11 of the Order is not, in all material respects, prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with schedule 11 of the Order.

Our review was completed on 12 May 2017 and our opinion is expressed as at that date.

KPMG

Wellington